CURRENCY,

SELF-REGULATING AND ELASTIC,

EXPLAINED IN A LETTER TO

HIS GRACE THE DUKE OF ARGYLL;

WITH

INTRODUCTORY CHAPTERS

ON THE

NATURE OF CAPITAL, AND OF MONEY,

AND

AN HISTORICAL SKETCH OF

BRITISH CURRENCY SYSTEMS.

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PREFACE.

In the year 1844 a bill was introduced into the British Parliament, professedly for the *better* regulation of the currency of the United Kingdom, and after considerable discussion, it was passed in both houses, received the royal sanction, and became, what it continues to be, the law of the land.

The promoters of this bill maintained that its adoption would serve "effectually to prevent the recurrence of those commercial convulsions, those cycles of excitement and depression, which result from the alternate expansion and contraction of an ill-regulated currency." Its opposers, on the other hand, maintained, with equal confidence, that the adoption of the bill would make expansions and contractions of the currency more frequent than ever, and would aggravate the very evils it was designed to cure. To the question, Who were right, and who wrong? the catastrophes of 1847 and 1854, and the speculation thereto precedent, afford a melancholy answer.

Those who rightly understood the measure, could not prevent its being adopted; but they were able to obtain this concession, that if, on the expiry of

eleven years, its working should have proved unsatisfactory, it should then be in the power of her Majesty's Government to bring to an end the arrangement with the Bank of England which formed the basis of it.

The specified period has now elapsed. The measure has been tried in the balance, and has been found miserably wanting. The currency question is, therefore, once more practically an open one. As a subject involving the deepest interests of the community, it is the duty of every member of it to do what in him lies for its elucidation; and in the discharge of this duty, the writer of the following pages offers them as his contribution.

He believes that the currency system therein set forth will be found to effect all the important results which the Act of 1844 promised, but failed to accomplish, and that it will be found to be most simple in its operation, and to be based on the only consistent theory of money that has ever been proposed. Should he prove to be right in this, he flatters himself he will have done good service to society; while, should he prove to be wrong, his labour may not necessarily have been lost, and certainly will not be so, should it serve in any way to lead to a more enlightened investigation and a clearer comprehension of a subject hitherto enveloped in much obscurity.

INTRODUCTION.

No one who has, however cursorily, glanced over the commercial history of Great Britain during the last sixty years, can have failed to have had his attention arrested by one prominent and remarkable feature—I mean, the constant recurrence of periods of panic and convulsion; while the more close observer can equally little have failed to notice that these periods of convulsion form the boundaries—the ending and the beginning—of cycles, each embracing a series of phenomena, differing, it may be, in intensity and duration, but in their general character, and in their order of succession, forming exact counterparts of the phenomena which distinguished the cycles that went before, as well as those that come after it. Indeed, that history seems so vividly to tell us, that not more surely does spring succeed winter, summer succeed spring, and harvest summer, to be followed again by the storms of winter,—than stagnation has succeeded convulsion, prosperity succeeded stagnation, and speculation pro-

sperity, to be followed in like manner by the ravages of distrust and panic,—that one is apt to be led away by the notion that an analogy so remarkable indicates that the revolutions of the mercantile world are, like those of the seasons, part of the arrangements of Providence—evils the removal of which lies beyond the reach of man's power—evils fraught, it may be, with good which he cannot, in the meantime, discover—evils which his duty and his only course is to endure with patient submission—were it not that hope suggests the idea, and mature thought produces the conviction, that these evils form no part of God's arrangements, but derive their existence from human mismanagement, fostered and aggravated by the misapplication of human ingenuity.

In the history of our commercial career, we find, first of all, a time of alarm and distrust; money scarce—perhaps unprocurable on any terms—certainly only at an extravagant rate of interest; a rapid fall in the prices of all commodities; numerous failures; and suffering, wide-spread and deep, among all classes of the mercantile community. Then we have a period of stagnation and inactivity. Then business revives, slowly and gradually; till at length distrust gives way to confidence, and the mercantile and manufacturing classes begin to hope for better times. Their winter has gone by; their spring is nearly over, and summer is not far off. The winter of the merchant was the harvest of the millionaire. But his turn of adversity has now come round. The winter of the moneyed capitalist is the spring and summer of the merchant. Formerly the cry was,

"Who will lend me money, on any terms?" Now the case is reversed, and the cry is, "Who will borrow my money? who will give me any interest for the loan of it?"

It has been said that commodities make markets for themselves. That may be, or it may not, but money does; and we find, accordingly, that the plethora of money, by and by, comes to an end. That, however, takes time; and the interval, though a period of little satisfaction to the owner of money, is one of rejoicing to the merchant and manufacturer. Interest is low; securities, which formerly no money-dealer would look at, are now eagerly sought after; and in place of the merchant soliciting his banker to grant him, as a special favour, such limited amount of accommodation as might be essential to the meeting of his engagements, contracted to the utmost of his power, his banker now exhibits pleasure at seeing him enter, expresses regret that such a small amount of his paper passes through his hands, and hopes that he will favour him with a larger share of his business in future. A request so kind and courteous merits a response, and in the majority of cases it is sure to obtain one. The merchant has every inducement to comply with his banker's wishes. Prices of all sorts of goods are low; they must rise; they are rising; they will continue to rise. Now or never is the time to make a fortune. The disposition to extend their operations prevails among every class of merchants and manufacturers: production is stimulated to the utmost: the capital of the country increases with unprecedented rapidity: the working population are all employed, at wages enabling them

to live in comfort: schemes of improvement are proposed and carried into effect: crime diminishes: benevolent enterprises are encouraged: the Chancellor of the Exchequer congratulates parliament on the increasing revenue: the newspapers point with exultation to the unparalleled amount of our exports: the politician and the philanthropist rejoice together: croakers, who would insinuate that the excitement which is witnessed around is not the exhilaration of health, but the fever of intoxication, are silenced: and the whole external appearances of things are such as to indicate the existence of an almost universal prosperity throughout the land.

But, suddenly, a change comes over the scene, and that which, but a little while since, was all brightness, is now all gloom. What means this? Has the angel of death cast his thunderbolts among the people? No. Has earthquake or pestilence, or sword or famine, blighted their energies? No; nothing of the sort has happened. What, then, has caused this change? Listen! Hear it in a whisper: "tell it not in Gath: publish it not in Askelon:" the yellow metal is diminishing! What! the yellow metal diminishing? Yes! it has been declared, on credible authority, that that magic talisman, on whose presence depends the mercantile prosperity of the British people, has lately suffered serious diminution in its bulk; and certain parties who have access to the cellar in which it is commonly believed to lie, have declared that whereas there were lately ten million pieces of said metal, the quantity is now reduced to seven million; and no sooner does that become known to the community, than gloom covers

every countenance; and over the length and breadth of the land the cry reverberates, "The yellow metal is diminishing—suspend your operations;" "The yellow metal is going—close your factories;" "The yellow metal will soon be all gone—save himself who can." Distrust is awakened; bankruptcy exists on every side; factories are closed; industry is arrested; the workmen are scattered, and, forced to eat the bread of idleness, and, it may be, of charity, they meet in the streets and lanes, discuss the schemes of chartism and socialism, and believe the demagogues who tell them that their distress is caused by combinations and conspiracies among the higher classes; but those who are better informed know that their sufferings have arisen from a short supply of yellow metal—in other words, that the collective wisdom of the British people, in parliament assembled, did, in the year of grace 1844, decree and enact that whenever the stock of a certain yellow metal, commonly called gold, in the vaults of the Bank of England, should fall below a given point, proceedings should forthwith be adopted, the inevitable consequence of which must always be to bring about calamities such as those I have now endeavoured to describe.

Why should this be so? We plume ourselves on our advancing intelligence. When we read that, in times bygone, it was generally believed, not only by the vulgar, but by men of education and intelligence, that the precious metals alone constituted wealth; that the riches of a country were to be estimated by the quantity of them which it contained; and that, accordingly, the grand object to be

aimed at in the carrying on of foreign trade was to increase the stock of them, the importations of other commodities being discouraged, however ample might be the return they afforded for the articles given in exchange, and the exportation of native products being regarded as desirable only in so far as payment was likely to be obtained for them in gold and silver—we readily see the absurdity of the notion; we wonder that a delusion so apparant should so universally have prevailed; we feel assured that had we lived then we would have seen its folly; and we congratulate ourselves that we live in more enlightened times. But is it certain that we do not labour under delusions equally preposterous? I fear it is not; and I am strongly inclined to suspect that the views still very generally entertained among us, as to the possession of a large stock of gold being essential to the commercial prosperity of our country, are as absurd, and quite as destitute of any rational foundation, as were the theories of the bullionists of the seventeenth century. The difference between the views of these days and those of the present is a difference of degree, not of kind. Our forefathers thought that a nation could not possess *enough* of gold; we think that a nation may have *too much* of its capital invested in that commodity, and are quite satisfied if, in these islands of ours, we have twenty or thirty millions or so of gold sovereigns circulating from hand to hand, with a reserve of ten or twelve, or, perhaps I should say now, fourteen or fifteen millions more lying in a vault in London to meet contingencies; and we see no reason why, so long as this continues to be the case, we should not manufacture goods, and build

ships to convey them to distant markets, and bring back other commodities in return—and, in a word, allow our business operations to proceed with life and energy. But no sooner does the said reserve come to be diminished in amount than the aspect of things changes. If it sinks to eight millions, we are uneasy; if it sinks to six millions, alarm prevails; if it sinks to four millions, we are in despair; industry is suspended; our factories are closed, and our working classes are left to eat the bread of idleness, and to brood over the schemes of chartism and revolution.

I ask again—why should this be so? I confess I cannot discover any sufficient reason for it. One can easily see that all this might be a natural enough consequence of a failure in our supply of cotton, or wool, or iron, or coal, or, to a greater or less extent, of any of the great staples of our manufacture; but that an entire derangement of the manufacturing industry of the nation should be made to follow as the consequence of a diminution in our stock of gold, the manufacture of which affords employment only to a very limited number of our population, and which is valuable only as an article of luxury, any more than it should be made to follow as the consequence of a diminution in our stock of indigo or cochineal, does indeed appear to be the result of a most strange delusion.

This delusion has, I believe, derived its origin from mistaken notions as to the nature and functions of circulating medium; and to arrive, if possible, at some distinct idea as to whether there is really any natural connexion between the commercial prosperity of the

nation and its possession of a certain quantity of gold, is the object aimed at in the present inquiry.

In the prosecution of this inquiry, I propose to consider, first, the nature of capital and the nature of money; the former of which we shall find to consist mainly of commodities, and the latter of which we shall find to be simply the instrument which men have agreed upon to facilitate the interchange of commodities:—the practical conclusion to be drawn from the whole being, that the quantity of money in any country should be neither more nor less than is required for the due discharge of that function.

I propose next to explain the nature of money, as found among all existing communities, and to illustrate the effects which flow from an increase or a diminution in the quantity of it circulating among any people. In the chapter to be devoted to this branch of the subject, I will take occasion to allude to various conflicting opinions advanced by different writers on the currency question; and I hope to be able, to a great extent, to reconcile these with each other, by shewing that both sides are right, under certain circumstances, and that the cause of controversy has lain in this, that the writers in question overlooked the fact, that an increase of currency is followed under one class of circumstances by consequences entirely different from those that result from it under circumstances of a different character:—the practical conclusion from the whole being here, as formerly, that it is for the interest of every community that the amount of money existing in it should bear one uniform relation to the necessity for it, as indicated by the amount of exchanges to be effected,

modified by the greater or lesser rapidity with which the money circulates from hand to hand.

I propose next to inquire how far this character applies to the currency systems now or heretofore existing in Great Britain; and it appearing, as it will do, from a sketch of our commercial history for the last sixty years, that it does not apply, and that in the currency systems in question the true nature of money has been virtually lost sight of, the supplies of money being increased or diminished without any regard to the extent of the duties to be discharged by it, I will then proceed to explain the system, the adoption of which I have to recommend to the British people, as a system fitted to maintain one uniform and unvarying relation between the supply of money and the necessity for it, and a system under which scarcity and superfluity, redundancy and depreciation, would be alike impossible.

CHAPTER I.

CAPITAL.

Capital is the term used to designate the stock of commodities, having exchangeable value, possessed by an individual or a community.

To entitle anything to the name of capital, it must possess, not utility alone, but also value in exchange; and to enable it to acquire that, it must be distinguished by difficulty of attainment; without which, however great its intrinsic worth may be, it will not properly be included under that denomination. From this it may be inferred that Capital and Wealth are not exactly synonymous, and that the very excess of the latter prevents the commodities embraced in it from coming under the head of the former; difficulty of attainment being as much an essential element in the idea of capital, as inherent value. Thus, water, so long as it is found in such abundance as to afford a supply sufficient for the wants of every one, is not capital; and the owner of a fountain of the purest crystal may be unable to obtain anything in exchange for it. But let a drought come, and his water will then acquire a market value; while, if the drought be permanent, it may become a source of large income to him; and in an estimate of the capital of the nation, it will be set down as worth, it

may be, thirty years' purchase of its rental, and to that extent increase the capital of the people. So that the same cause that swells the capital, may diminish the wealth and the comforts of a nation.

Generally speaking, the exchange value of any commodity is regulated by the amount of labour employed in the production of it; that is, however, only on an average of years; the exchange value of commodities being always regulated, for the time, by the relation existing between the supply of them and the demand for them. In other words, the ultimate regulator of the exchange value of an article is the amount of labour expended upon it, or cost of production; while the immediate regulator is difficulty of attainment, or relation between supply and demand.

Capital has been defined to be "labour accumulated." But the definition is not strictly correct, as some things possess great value, and are generally known as capital, on which no labour has been bestowed, such as land, waterfalls adapted to the driving of machinery, precious stones found accidentally on the surface of the earth, and so on; and it may, I think, with as great propriety be described as embracing every thing useful to the human race, and not existing in such abundance as that every one is able, without labour, to procure all of it that he may require. Whenever labour, in however small a degree, is required to fit the article for human use, and whenever it has been bestowed upon an article, that article becomes capital, and its value may, in general terms, be assumed as the value of the labour that has been expended upon it.

It is not my intention, however, to enter upon any detailed explanation of the nature of capital,—that being a matter fully, and generally correctly enough, treated of in all works on political economy. I will therefore content myself with stating that, with exception of land, waterfalls, minerals, and other natural agents or powers, (as they have been termed,) CAPITAL CONSISTS OF COMMODITIES: and the points which I wish to bring prominently before the reader are these, that MONEY IS NOT CAPITAL, and that what is called MONEYED CAPITAL, and what is called PROPERTIED CAPITAL, ARE ONE AND THE SAME THING,—the difference between the propertied capitalist and the moneyed capitalist being simply this, that while the former holds title-deeds of real or heritable property, the latter holds mortgages; and while the former possesses personal or moveable property in his warehouse or store, the latter holds the personal obligation of the former that he will account to him for a certain portion of its proceeds.

But is it true that "money is not capital?" Most undoubtedly it is; and that it is so, may be proved by this, that if all the money in the United Kingdom were collected together, thrown into a fiery furnace, and there reduced, the gold, silver, and copper to ingots, and the bank-notes to smoke, the community at large would be neither the richer nor the poorer of it. Their convenience would be seriously affected by the want of money, but their wealth would not—all that was lost by one being gained by another. And neither would the wealth of the nation be diminished though all the bills, bonds, and other pecuniary obligations held by its

different members, were to be thrown after the money—special exception being, of course, made of those which were payable by the people of foreign countries.

Capital consists of commodities, and from this may be seen what an utter misuse of language it is to speak of "capital seeking investment." Money may seek investment—that is, may seek to be exchanged for commodities, but all capital is already invested; its being so being the essential condition of its existence.

Is, then, an individual possessing £50,000 in the funds not a man of capital? To say that he is a "man of capital" may not be very objectionable; all that is meant by that expression being, that he possesses a recognised claim on the British people for an annuity of £1500 or thereby, payable to him and his heirs for ever. But when it is said that, in his title to this annuity he "possesses capital," or that the "funds are capital," that is asserted which is utterly erroneous—the fact being, that it is no more capital than the dinner which the reader ate yesterday is capital, because it may happen to be that he has not paid for it. His obligation for the payment being presumed to be undoubted, it will appear as capital in the books of him who furnished it. But it is really not capital, any more than the national debt is; and though they were both to be expunged, the community would be none the poorer. In the one case, the restaurateur would lose, but the reader would gain as much; in the other case, the holders of the national funds would lose, but the nation at large would gain an amount exactly equivalent.

Is an individual possessing £10,000 in Bank of England notes, and having no debts to pay, not a man of capital? Here, as before, there may be no impropriety in saying that he is, but it would be quite erroneous to say that the bank-notes were capital. They may represent capital, in so far as they may have been advanced on the security of commodities pledged for their repayment, but in themselves they are not capital; and though their destruction might be a source of loss to him who holds them as the representative of commodities in exchange for which he obtained them, and a source of gain to the shareholders of the Bank of England to a corresponding extent, the wealth of the nation would be neither increased nor diminished by the process; which could not be truly said if the thing destroyed had been, not the bank-notes, but the commodities in exchange for which they were obtained—the reason being, that the latter constitute capital, which can never be destroyed without injury to the community, while the former do not.

The Bank of England is said to possess a capital of fourteen millions sterling. Does its capital consist of commodities? No; and in correct language the capital of the Bank of England, with exception of its "rest," is not capital, any more than the dinner which the reader ate yesterday and did not pay for is such. What the Bank of England does possess is a recognised claim on the British people for a perpetual annuity of £400,000 to £500,000; but the cancelling of this would no ways diminish the capital of the nation; and that which what is called its capital really represents, was all consumed in gun-

powder-smoke, and other such things, fifty or a hundred years since. But though its own proper capital has no existence, it comes, through the operation of the privilege of issuing bank-notes enjoyed by it, to possess, indirectly, a large amount of capital,—the way it does so being that its notes are given as receipts for gold deposited, or on loan to parties possessing real capital or commodities, which, though not given up to the Bank of England, are held for its behoof, the borrower being bound, in virtue of the obligation under which he obtained the notes, to return the notes, or to account to the Bank of England for a certain proportion of the proceeds of these commodities. And, accordingly, the borrower, in making up a statement of his affairs, may be presumed to put down on the one side the whole value of the commodities so held by him, and on the other side the amount for which he is indebted for the Bank of England notes in question; and the amount in which he is thus indebted will indicate the proportion of his capital or commodities which belongs temporarily to the Bank of England, while the difference between the two will indicate what proportion belongs to himself, or, in other words, will shew how much of the capital in question belongs to him as "propertied capitalist," and how much to the Bank of England, not as "monied capitalist," but in virtue of its privilege of issuing bank-notes.

The Bank of Scotland is said to possess a capital of one million sterling. Does its capital consist of commodities? To a great extent it does. To the extent of £300,000, or thereby, the amount of its notes in constant circulation, it becomes, in same way as

the Bank of England, indirectly a possessor of capital; that capital being, as it were, hypothecated to it (though it may be held by the borrowers of its notes) in security for the return of these notes; but this capital is not, properly speaking, its own, but something found to it through the exercise of its privilege of creating money. Then, as regards its million of paid-up capital, and its say three millions of deposits, making in all say four millions,—suppose that three millions are lent out to merchants and other traders, then, the bills on which it was lent being presumed to represent real transactions—that is, to represent certain goods sold by the drawer to the acceptor of each bill cashed, or held for account of one or both of them—the capital of the bank consists to that extent of commodities, and thus is real capital. Suppose that £150,000 of their means are represented by gold lying in their safe; then this consists also of commodities, and is real capital, too, though very unprofitably employed. But suppose, further, that, of the remaining £850,000, £500,000 is represented by government stock, and the other £350,000 by Bank of England notes lying in the hands of their London agents, then, to this extent their capital does not consist of commodities, and so far, properly speaking, is not capital at all. The former item represents a perpetual annuity of £15,000 or £16,000, payable by the British people, which, though saleable, is not capital; but the latter consists of that which may represent nothing, being merely pieces of paper issued by the Bank of England, designated as money, but which, having been issued in excess of what the country requires for

the purpose of currency, cannot be applied to that purpose. They are not capital, and, accordingly, though they were to be burned, the national wealth would not thereby be diminished.

If money be not capital, what is it? Dr Samuel Johnson says it is "metal coined for the purposes of commerce;" but Mr Hume has, with greater propriety, (seeing that it may consist of other materials as well as metal,) defined it as "the instrument which men have agreed upon to facilitate the exchange of one commodity for another." * Such being its nature, it will be observed that money bears the same relation to the commercial transactions of a community that tickets bear to the passenger traffic of a railway company; and I think that I cannot better illustrate this than by means of the following extract from a book upon railways. The work from which I make the quotation is, I must candidly admit, not a work of authority, being neither more nor less than the "History of the Glenmutchkin Railway,"—a railway neither quoted in the share lists, nor laid down in the railway maps, but said to derive its existence from the brain of a talented northern professor; and the history being one chiefly designed to expose the system of getting up railways which flourished ten years since, though one is almost inclined to suspect that its author had an eye to "currency doctors" as well as to "railway projectors." Truth may sometimes be taught by fiction as well as by fact; and I hope that the appropriateness of the illustration con-

* "Essay on Money."

tained in the following extract will serve to the reader as a sufficient apology for its introduction :—

"The railway being now in working order, and the engines, carriages, and trucks almost completed, it became necessary that the ticket question, which had formed the subject of so much discussion at the railway board, should be finally adjusted.

"It was mentioned in a former chapter that Bob M'Corkindale, or Mr M'Corkindale, as he must hereafter be called, and as a man occupying the honourable position of secretary to the Glenmutchkin Railway deserves to be called, was essentially a speculative man—that is, in a philosophical sense. He had once got hold of a stray volume of Adam Smith, and for more than a week muddled his brains over the intricacies of the 'Wealth of Nations.' The result was a crude farrago of notions regarding the true nature of money, the soundness of currency, and the relative value of capital, with misty dissertations on which he used nightly to favour an admiring audience at 'The Crow.' This forum he had for some time abandoned, and the railway council board now formed the arena in which he exhibited his peculiar views on the various departments of political economy, which he considered bore most closely on the subject of railway management.

"On the ticket question he was peculiarly eloquent,—the great point which he aimed at being, that the tickets of the Glenmutchkin Railway should be made of gold or silver, each ticket possessing in itself a value equal to the price put upon the journey, whether for man, cattle, or goods, over which

the ticket was to form the title of conveyance for its owner, or his goods and chattels. Railway tickets, he said, were money, bearing, as they did, the same relation to the traffic of a railway that money did to the traffic of a nation. The same rules should be applied to the one as to the other, and he shewed that all the great political economists were unanimous in their opinion that gold and silver were the proper materials from which money should be made.

"His oratory, however, was unavailing; and his proposal was unanimously rejected. So that the question of a metallic *currency* being disposed of, and paper or pasteboard being fixed upon as the material of which their tickets were to be constructed, it was only further necessary to arrange in what manner the tickets should be provided. Several firms, towards which the different directors had respectively a friendly feeling, were proposed as parties to whom this privilege should be entrusted; and it was finally agreed that each of the following, namely, Inglis & Co., Bull & Co., Saunders & Co., and Patrick & Co., as well as some smaller concerns, should pay a given sum per annum to the railway company, and that, in consideration thereof, each of them should be entitled to issue as many tickets as they could find purchasers for, entitling the holder to conveyance of himself or his goods over the part of the railway named in the ticket. The railway company bound themselves to give the required accommodation to all parties presenting these tickets, in so far as they had it to give; but they did not bind themselves to furnish accommodation beyond that, in as far as, though they had a sufficient num-

ber of engines, carriages, and trucks to supply any ordinary amount of conveyance, it was impossible for them to foresee what extent of demands might some day or other be made upon them; and, besides, it was the duty of the houses who issued tickets not to issue them in excess of the accommodation which the company could afford, as, in event of their doing so, they would, no doubt, be required by the disappointed purchasers to 'give back the money.'

"The way-bills were duly issued, stating the prices of tickets to and from all the different stations on the line, and for some time everything went on satisfactorily. But after a while it began to be whispered abroad that some of the smaller houses were in the habit of selling tickets below the fixed prices; and it afterwards became evident that this was a true charge against them. The larger ticket houses were extremely indignant at this, and especially Inglis & Co., who, from the central position of their shop, had always a great sale of tickets, and, in fact, did more business in that way than all the other houses put together. The ground of their complaint was, that the small issuers made tickets so abundant and so cheap, that their own regular customers were going past their door, and supplying their wants at the cheap shops. But though the latter increased their issue, and reduced their prices, solely with a view to their own profit, they occasionally found that the loss overbalanced the gain; for however low might be the prices at which they sold the tickets, they were all marked at the regular scale prices; and the consequence was, accordingly, that when the people who bought them found on

arriving at the railway station that there was no accommodation to be had in exchange for them, they frequently returned to the shop where they had purchased them, and demanded back their money—not what they had paid, which they were fairly entitled to, but the whole price marked upon the ticket. So numerous were the demands of this sort, that more than one of the small issuers found themselves in a fix, and were under the necessity of 'laying down the barrow,'—that being the metaphorical language used in the West to express the idea of 'calling a meeting of their creditors.'

"When this had taken place on a few occasions, there was a loud outcry of dissatisfaction, every one holding a ticket for which he could not get back his money, very properly looking upon himself as an ill-used individual; and whereas, previously, Inglis & Co. were little sympathised with when they complained that their business had been taken from them, now all these unfortunate ticket holders were disposed to join with them in vituperating the existing system, and calling for a change upon it.

"This feeling had become so prevalent, that it was found necessary, at the next general meeting of the company, to bring the matter under review. It was admitted on all hands that the then existing system had not worked well; but how to improve it was a point on which unanimity was not so easily arrived at. The partizans of Inglis & Co. were very desirous that all the other firms should be put down, and that they alone should, in future, have the privilege of issuing railway tickets; and they asserted with great vehemence, that so long as they had any

rivals, tickets would vary in price; while, if they alone had the privilege of issuing, they would arrange so nicely, that the right supply of tickets would always be obtainable, and no more. Their opponents denied all this; and asserted that Inglis & Co. had exhibited no more skill in the management of their business than any of the other large ticket houses; that it would be a great injustice to take the business from the latter to swell their profits; and that if the business were to be taken from one, it should be taken from all, and be managed by the company itself. This last hint met with violent opposition; and it was said that no railway company that had ever undertaken the management of its ticket department had managed it well; though no reason was given why, because some railway companies had mismanaged their business, therefore the Glenmutchkin Railway should do it also.

"Finally, it was proposed that, in future, with the view of guarding against the undue cheapening of tickets, each of the firms should be allowed to issue a fixed number of tickets; but that, however great the demand might be, beyond that number they should not be allowed to pass. It was urged against this, that the trade of the district was increasing; that increased accommodation for traffic was indispensable; and that, in fact, additional engines, carriages, and trucks had been ordered, and would, by and by, be ready to be placed on the line,—so that by thus putting a limit to the number of tickets that should be issued, they might expose both the railway company and the people of Glenmutchkin to inconvenience and loss. The proposal, however, was

seconded, and supported by various talking members; and though the more sagacious shareholders saw clearly that the thing would not work, the orators, by means of their great volubility, combined with a judicious use of long, high-sounding words, to which neither they nor their auditors attached any distinct ideas, managed to create an impression among the shareholders that they were mightily clever fellows; and the majority came to the conclusion, that the question of railway tickets, though it appeared simple enough when viewed apart from the lectures delivered by these gentlemen, must really be one of a very intricate character; that none but political economists could see through it; that as they were not political economists, it was not to be supposed they should; and that, accordingly, it was their duty to give their support to the measures proposed. And some believed that the measure would answer the purposes it professed to serve, but some doubted; and the experience of a very short time was sufficient to prove that their doubts were well-founded.

"About the time when the new arrangement came into operation, there happened, somehow or other, to be no great demand for railway tickets. They became, indeed, quite a drug in the market; and Inglis & Co., who before had always made strong opposition to any reduction in price, seeing no other way of bringing customers to their shop, announced a great reduction in the price of railway tickets. The excessive cheapness induced a wonderful amount of travelling; and the least inducement in the way of business or pleasure was sufficient to take people along the line, so that things had quite

a bustling appearance, and everybody was delighted with the flourishing state of affairs. Inglis & Co. reasoned well. They said, 'We have the privilege of issuing a certain number of tickets; at present there is no demand for them at the regular prices; but by offering them cheap, we will create a demand; and in the meantime it is better for us to sell a good number of tickets, even at a low price, than by standing out for a high price to limit our sale.'

"But the Camlachie fair was now at hand. The number of travellers and the quantity of goods to be sent along the line was great, and the demand for tickets was in proportion thereto, and, as turned out to be the case, far in excess of the number that all the ticket houses together were allowed to furnish. The people, in their anxiety to procure tickets to entitle them to pass themselves, or to send their goods along the line, crowded round the doors of the shops where they were to be sold; and such was the anxiety to procure them, that there was scarcely any price that could not be got for railway tickets. Knowing that whatever the demand might be, only a limited number could be issued, the notion became general that the stock would soon be exhausted altogether, and that neither for love nor money would it be possible to get them; and the consequence was, that numbers of people, who had money to spare, went away and bought parcels of tickets, that if any unforeseen contingency should occur to call them along the line, they should not be prevented by want of them from obtaining railway accommodation.

"The prognostications of those who foretold that

the plan would not work well, were now called to recollection; and not a few taunts were thrown in the faces of those by whom it had been proposed, and on the faith of whose brilliant representations the shareholders had been induced to adopt it. These gentlemen, however, not being troubled with modesty, denied that there was anything wrong; and asserted that, on the contrary, the system had worked admirably, and that the real evil was not a want of railway tickets, as common people thought, but a want of railway accommodation. Now, if they had contented themselves with making long speeches, and introducing into them long unmeaning words, so as to bamboozle the people, the latter would have submitted quietly; but to be told that there was no want of railway tickets, and that there was a want of railway accommodation, was provoking in the extreme,—it being a fact perfectly well known, that people with plenty of money in their pockets, and willing to give almost any price, had applied at all the principal shops without being able to get them; and that, on the other hand, every one who had a moderately good natural vision, or who, wanting that, was disposed to take the trouble of putting on a pair of spectacles, had hourly demonstration that the statement as to want of accommodation was untrue,—there being no want of railway accommodation, as was proved by the fact that not a passenger train left without empty seats in some of the carriages, and not a luggage train left that could not have taken a considerable quantity of additional goods.

"When the fair was over, the scarcity of tickets

was over too, and they became again as abundant and as cheap as ever; and so continued till the next fair came about, when the whole scene of agitation above described was again exhibited, forming every time it did come round a source of much loss and annoyance to all the traders who had occasion to travel or send goods along the line. For it was constantly observed that nobody could say one day what would be the price of railway tickets the day after. It is true, they were generally cheap enough; and indeed there is no denying that they were, for the most part, unnaturally cheap, and much more so than they would have been under a better system. But the grand evil was, the unceasing fluctuation, and this was constantly leading people into trouble. For example, suppose a grocer sold a hogshead of sugar, or a distiller a cask of whisky, to be delivered at the other end of the line by a certain day, he was very apt to suppose that tickets entitling to the carriage of goods would continue at the low rate at which they were when he made the sale, and he calculated his price accordingly. But every now and then tickets rose to double their usual level, and sometimes were not to be got at any price; and the consequence was, that, in a great many cases, the whole profit made on the transaction was swallowed up by the advance in the price of the ticket for the conveyance of the goods; and sometimes, from the impossibility of getting a ticket for any sum of money, the goods could not be sent at all; and so the seller was unable to make delivery at the stipulated time, and thus his credit and character for punctuality were lost, and many respectable traders were

ruined on every occasion on which these ticket panics came round.

"This system had continued for a pretty long time, and its promoters congratulated themselves on their ingenuity in devising it, and pronounced it to be a beautiful system; while the more intelligent part of the community, who had had no hand in the getting of it up, pronounced it to be an execrable system; and the rest of the community sat patiently; they had doubts of its goodness, but they did not understand it, and equally little did they feel disposed to take the trouble of trying to understand it; and so they contented themselves with repeating the wise saying, 'What can't be cured, must be endured;' when, one day, a director of the company received a letter, of which the following is a copy:—

"16 Puddock Row,
"Camlachie, 22d *August*.

"Sir,—In case it may not have come to your ears, I think it my duty to inform you that the management of the ticket department of the Glenmutchkin Railway is giving very general dissatisfaction; and though no blame is attachable to you, or any of the other directors, seeing that the system was adopted before you or they came into office, it would be a good thing were you to repeal that system, and get a more rational one in its place.

"The present system is mischievous in two ways—in making tickets ridiculously cheap at one time, and in making them preposterously dear at another; and the plan that I have to suggest for getting rid of all that is just this, that you should withdraw the

privilege of issuing tickets from Inglis & Co., Bull & Co., Saunders & Co., Patrick & Co., and the whole lot of them, and take in hand the providing of tickets yourselves.

"You will get a parcel printed very cheap; and having got them, all you have to do further is to put them into a drawer; give them in charge to an honest man; let him sell them at one fixed price to all who come for them with ready money, and let him account to the directors for the proceeds.

"If railway accommodation should happen to run short, let the people be told that, and they will be satisfied; but nothing so provokes a man wanting to go along the line, and seeing an empty carriage leaving, as to be told that he can't be taken, because the stock of *tickets* has gone done.—I am, sir, your obedient servant, D. CAMPBELL.

"The letter was in due course brought before the directors, and then before the shareholders; and the general impression was, that the plan recommended in the letter was a plain common-sense affair, and that it would be a vast improvement on the old system. But the concerns who held the contracts for issuing tickets disapproved of it *in toto*, and said that the public would never be so well supplied by the company as they had been by them; while the friends of Inglis & Co., who were numerous and influential, made special opposition to it, because, looking at the bad working of the system still prevailing, they had been long looking forward to a change, and they were very sanguine that at no distant date they should realise their long-cherished

hope of getting the whole ticket business into their own hands. The services of the orators were called into requisition, and sundry lengthened and brilliant orations were delivered, their general aim being to humbug the shareholders, who were told that the proposed plan was a mere novelty, unsupported by experience, and that to throw aside a system which had not only been long tried and been long found to work successfully, but had obtained the sanction of all the great political economists, would be to expose to jeopardy the interests of the Glenmutchkin Railway.

"The orators and their backers, the political economists, had, however, been brought down a peg in the estimation of the shareholders. None of them could close his eyes to the fact that the system on which the company had been acting for some time, and from which the orators had predicted such satisfactory results, had proved not only very bad, but even worse than the one it had superseded; and knowing how ill it had worked, and, at same time, hearing the political economists lauding it to the skies as the best system that could be found, they arrived at the conclusion that the political economists knew much less than they pretended, and that as they (the shareholders) had always before allowed themselves to be led by the political economists, even in opposition to their own judgment, while no good had come from their guidance, they would, on the present occasion, take common sense as their guide, in place of political economy; and the consequence was, that after much discussion, and much prophecy of evil from its adoption, a majority both

of directors and shareholders voted in favour of the new plan.

"The new plan was adopted accordingly. It has continued without change down to the present day, and it has been found to work very smoothly and satisfactorily. Sometimes there has been rather an over supply of railway accommodation, but tickets have never been allowed to fall below the regular price; and though people sometimes compare this with the old system, when they occasionally got them for half the money, and express a wish that the grand old days of cheap tickets were back again, no honest trader really regrets the change, for they all know that these low prices did not pay the issuers; and they have the further satisfaction of knowing, that if they never get tickets so cheaply as they used sometimes to do, they never need to pay so much for them as they had to do on other occasions. It is also true, that now and then there has been a positive scarcity of railway accommodation; and when that has happened to be the case, railway accommodation, and, of course, railway tickets, too, have risen somewhat in price. This, however, has very rarely happened, for the company have a good business, and never a year passes over without their increasing their stock of engines, carriages, and trucks; so that, though the trade of the district is extending daily, the accommodation is extending in an equal degree; and when there is an actual want of accommodation, all people have sense to see that this is nobody's fault, and that it is quite a different thing from what used to be the case at every fair, when, without any actual scarcity of accommodation, people were turned

away from the ticket shops with the reply that their tickets had gone done. Indeed, the only parties who have ever seriously complained of the new system, are those who call themselves 'knowing fellows,'—a set whom the soft-lipped call 'speculators,' and the plain speakers call 'gamblers.' Formerly, these used to make considerable sums of money very quickly, through means of the constant fluctuations in the value of railway tickets, which they managed, by raising money on what is called 'wind-bills,' to buy up in quantities when they knew that a fair was approaching. Indeed, it was observed that more fortunes were made by these generally lazy fellows than by their honester neighbours, who stuck to their legitimate business; though it was also true, that for every one that made a fortune, there were half a dozen who lost one. But this did not cause them much concern, there being this material point to be kept in view, that the fortunes made were all their own, while those lost were (generally speaking) all their neighbours', few of them having much of their own to lose. At one time, this system of speculating was considered very disreputable; but, latterly, it came to be nothing thought of, and people became so accustomed to it, that few could see any difference between the man who 'boldly dared' to make a fortune by one great adventure, and failing, paid 2¼d. per pound, and the honest trader, who, having trusted this speculator, and having got only twopence farthing as payment in full for every pound's worth of goods he sold him, was obliged to suspend payment.

"Now, however, things are entirely changed.

Nobody makes money by speculating in railway tickets. But half of the hazard that used to attend business has disappeared. Everybody can rely on getting the railway accommodation he may require at the same price it bears to-day, or a mere trifle above it, though it should be six months hence; and the effect has been to produce a decided improvement in the character of the people trading along the line. Those who are making money come to think there may be some chance of their keeping it; while before, what between, on the one hand, the constant fluctuation in the charge for conveying their goods, the rise in which often took away their whole profits, and, on the other, the constant risk they were exposed to of making bad debts, through the failure of the gamblers,—they saw that the chances of losing were pretty considerably greater than those of their keeping what they had made or might make; and the consequence was, that a system was very generally acted upon of spending all they earned,—a course they were further induced to follow from an ambition not to be eclipsed by the speculators, who, being for the most part reckless fellows, spent as fast as they made, and, sometimes, a good deal faster."

I think no one can read the above sketch without observing the very striking analogy between the relation which tickets bear to the traffic of a railway company, and that which money bears to the commercial transactions of a nation; and, further, between the successive systems of issuing tickets

adopted by the said railway company, and the successive currency systems adopted by the British people.

First, there is the proposal that all the tickets should be made of gold or silver. This plan the railway company seem to have negatived, on account of its evident absurdity; and yet the absurdity of using gold or silver for railway tickets is not a bit greater than that of using it for money, the only difference being that we have been accustomed to the one, and not to the other.

Then, the system adopted of allowing a number of different firms to issue as many tickets as they could get sold, without reference to the accommodation afforded by the railway, bears a considerable resemblance to the system which existed in this country prior to 1844, and which permitted every one to issue bank-notes to any extent to which he might be able to get people to pay him interest for the loan of them, without reference either to the want of the country for the notes, or to the ability of the issuer to fulfil the conditions on which they were given out.

While the system next adopted of allowing a certain fixed number of parties to issue at all times a certain number of tickets, without reference to the want existing for them, and without any power of increasing the number, however much the demand for railway accommodation might increase, and however much the power of the railway company to afford accommodation might increase along with it, seems to bear a very close and striking resemblance to the currency-bill of 1844, which provided,

in like manner, that the privilege of issuing bank-notes should be confined to a certain fixed number of banks; that they should be allowed at all times to issue to a specified amount, but that beyond that amount they should not issue, in however great a degree the capital and trade of the country might come to be enlarged, or in however great degree the necessity for circulating medium should increase from any cause.

The error which, under these systems, the railway company committed was that of viewing the tickets as something different from the mere means of facilitating their traffic arrangements, and, consequently, issuing them, or allowing them to be issued, without reference to the extent to which they were required for that purpose. And, in like manner, the error which has pervaded all the currency systems which have hitherto existed, is that of regarding money as something different from the mere instrument which men have agreed upon to facilitate the exchange of one commodity for another, and, consequently, allowing it to be issued without reference to the extent to which it is required for conducting the transactions of commerce; and I believe that the error thus fallen into has been productive of a greater amount of evil to mankind, and especially to the Anglo-Saxon race on both sides of the Atlantic, than any other error of opinion that the world has seen.

No railway company ever committed such blunders in its ticket system as those described in the foregoing quotation; and we may rest quite assured that, if such a thing were possible, as that the nations

of Europe or America could have arrived at their present stage of enlightenment without the use of money, and that the proposal were to be made that money should be adopted as "the instrument for facilitating the exchange of one commodity for another," the system that would be adopted would not be a system such as that now universally existing, which makes money at one time abundant, beyond what the wants of commerce required, and at another time scarce, as compared with that; but would be a system exactly such as that ultimately adopted by the foresaid railway company—that is, a system which should regard money in its true light—not as a thing whose abundance is to be regarded as a national blessing, whose scarcity is to be regarded as a national calamity, but as a thing to be provided exactly in such quantity as may be necessary to admit of its rightly discharging the function it is designed to serve, and which should regard any deviation from that exact supply as utterly discreditable to the institution in whose mismanagement it should originate.

And I think we may also conclude, that the system that would, under such supposed circumstances, be adopted, would not have its execution entrusted to private companies, but would have that placed in the hands of government as a most sacred duty. It appears to me that there are two grand functions devolving on the government of every country: the one to provide for the protection of the lives and properties of its people, and the other to provide a proper currency system—functions, the discharge of which cannot be delegated without injury to the

community. Let their ships of war be built by contract; let their artillery, their muskets, their gunpowder, be made by contract; let their military railways be constructed by contract; let their armies be victualled by contract,—and they will all be done better and cheaper than government can do it for themselves; but the supplying of *money* is the thing above all others which government can do better than any private institution can; and which, accordingly, it is their duty to place under government control and management.

Having now explained what capital is, and also what money, in the abstract, is, I will proceed in the next chapter to describe the origin and progress of that peculiar kind of money which still universally prevails; to explain how an increase in its quantity affects the community among whom it occurs; and to point out the enormous amount of evil to which society, in all commercial countries especially, has been exposed through fluctuations in its amount.

CHAPTER II.

MONEY.

In the infancy of society, when each family may be supposed to have produced all that was required for the consumption of its members, there would be little exchange of commodities. But when it came to be observed that different individuals excelled in different departments of labour; that one displayed greater skill in the fabrication of bows and arrows; a second surpassed his neighbours in dexterity as a hunter; a third exhibited greater expertness as a fisher; while a fourth was distinguished for his superior talent in raising the fruits of the earth,—the one would find it to be for his advantage to devote his whole time to the fabrication of bows and arrows; the other to hunting; the other to fishing; the other to agriculture, and so on,—each trusting to his neighbour to supply him with certain articles necessary for his subsistence; and his neighbour, on the other hand, trusting to him for the supply of the particular articles, to the production of which he applied his industry.

During the first stage of commerce, the exchanges between the different members of the community would consist simply of the barter of a certain quan-

tity of one commodity for a certain quantity of some other commodity; the principle regulating the proportions in which these would exchange for each other being, no doubt, that a quantity of any one thing, the production of which might form the result of an average day's labour, should be regarded as the equivalent of such quantity of another thing, as should also form the result of an average day's labour, the labour in both cases being equal, or nearly so, in point of exertion or danger.

But when the number of exchanges came to be increased, the inconvenience of this mode of effecting them would be found so excessive, that men's ingenuity would be employed to devise some means of simplifying their transactions, and the next step would be to fix upon some article held in general esteem, which should both form a standard by which to describe the relative values of different commodities, and a medium through which the exchanges should be effected. Among different peoples, different articles have been selected for this purpose: iron among the Spartans, cattle among the Romans, bars of salt among the Abyssinians, cowries among the Negroes, &c. But the articles that have invariably been adopted by all nations who have reached any advanced stage of civilization, (and who have not adopted that more refined or scientific currency, which reason points to as the more perfect monetary system,) are gold and silver, the superiority of which for such purpose, over all other commodities, is evident. An ox might be large or small, fat or lean; a bar of salt might be impure; cowries might vary in size,—but gold and silver, if unalloyed, are always

the same in quality; they are minutely divisible, and they unite great value with small bulk.

At first, gold and silver were exchanged for other commodities by weight, and merchants would, doubtless, in these early days, as they now do in China, where a great part of their transactions are still carried on in barter of silver bullion against other goods, find it necessary not only to ascertain the quantity of metal by weight, but to test its purity by some mode of analysis. This would, of course, be attended with much inconvenience, as well as great danger of having impure metal passed for what was unalloyed; and as a means of remedying these evils, whenever governments have come to be established in any country, they have generally taken charge of coining the precious metals, or dividing them into small portions, on which a stamp is impressed, certifying both as to the weight and as to the purity of the coin.

Gold and silver, when so coined, came to be called money; and no one can fail to see how great an improvement the adoption of it is on the rude system of barter originally prevailing, and how much the introduction of it into any community must have tended to promote its commercial prosperity.

The use of gold and silver, however, for this purpose, is attended by many drawbacks, one of the chief of these being the great expense which it entails: first, in the loss arising from the tear and wear of the coins; and, second, in withdrawing from productive employment an amount of capital equal to the exchange value of the metal so employed. And with the view of remedying these, modern ingenuity

has invented bank-notes, designed, in the first instance, only to save the tear and wear of the metal, but, afterwards, to dispense with it almost altogether. In the former case, each bank-note put into circulation represented a portion of gold or silver, corresponding with what was named in the note, actually stored in the coffers of the issuing bank; but in the latter case, notes are issued greatly in excess of the amount of these metals in possession of the issuers,—thus not only saving tear and wear, but leaving for investment in productive capital an amount of gold and silver equal to the difference between the amount which the whole paper issued is held to represent, and the amount really held by the issuers.

These notes form an exact counterpart of what are known among merchants as "dock-warrants," or "delivery-orders." They certify to the bearer that, should he desire it, he may, in exchange, receive a certain quantity of the merchandise named in them, whether tea, or tobacco, or pig-iron, or the like; and so the bank-notes certify that the holder may obtain, in exchange, a certain quantity of gold or silver.

As already mentioned, the advantage to any community from the introduction of such a system of paper money is very great, in as far as it disengages and leaves available for investment in productive capital the whole, or a certain proportion, of the gold and silver formerly used as circulating medium; and though the amount required for that purpose in any country generally bears but a small proportion to the capital of the country—the capital of the United Kingdom, for example, being

estimated at about £5,000,000,000 sterling, while the whole circulating medium, including gold, silver, and bank-notes, is supposed to be only about £60,000,000 or £70,000,000 sterling, or little more than one per cent. on the capital—still the saving is considerable. Thus, in Great Britain, where the bank-notes in circulation not represented by gold amount now to about £32,000,000, the saving to the nation at large from the use of them, in the place of gold, can hardly be estimated at less than £1,920,000 per annum,—being amount of profit, at rate of six per cent. per annum, likely to be derived from the employment of the capital which the gold thus liberated may be presumed to have been exchanged for. And were the whole of the gold still circulating in England to be withdrawn, and its place to be supplied by paper, as it is in Scotland, and as it might be, very much to the convenience of all who have to handle money in the former country, it would produce a still further saving of from £1,800,000 to £2,400,000 per annum, accordingly as the amount of gold so circulating or held by banks may be more or less than £30,000,000 or £40,000,000.

This estimate of the saving at six per cent. per annum is certainly not an exaggerated one,—leaving, as it does, little more than two per cent. as annual profit from the employment of money, in addition to the interest usually paid for the loan of it.

It is worthy of remark, that, while the adoption of an exclusively gold currency in place of a partly paper one, in the United Kingdom, would entail an extra loss on the nation of about £1,920,000 per

annum, no one would be sensible of the portion of loss borne by himself,—the loss being divided among the whole population exactly in proportion to the number of gold coins each individual might, on an average, be accustomed to have in his possession. And so, when a paper currency is used, in place of a metallic one, the gain which accrues to the issuers is, in like manner, contributed by every member of the community exactly in proportion to the number of the notes he may, on an average, be accustomed to have in his possession,—forming a tax which every one above the very poorest class pays more or less of, and which, at same time, every one is utterly unconscious of paying. It seems, therefore, strange that, in the difficulty that exists with our government, of finding suitable subjects of taxation, this should have been so long overlooked, or, rather, should have been, with such unaccountable liberality, handed over as a perquisite to those bankers and banking companies who have obtained the privilege of lending the people paper, in exchange for their gold, and of charging the people interest for the loan of said paper,—a liberality for the justification of which it would be difficult to find any better argument than the one which will, no doubt, be made use of by the shareholders of the Bank of England, and all the other banks of issue throughout the kingdom, when the privilege of issuing notes comes to be taken from them: "We and our predecessors *have been accustomed* for a hundred and fifty years back to lend the British people our paper, and to charge them £1,000,000 per annum, or thereby, for the loan of it; and if they refuse to take our

paper any more, and resolve to keep in their own pockets the millions we have been accustomed to divide annually amongst us, it will prove to us a heavy blow and great discouragement." And no doubt of it; but it is to be hoped the advancing intelligence of the British people will demand more cogent reasons for sanctioning the continuance of a system which deprives the nation at large, for the benefit of any body of individuals, however estimable they may be, of an annual sum equal to a fiftieth part of the whole national revenue.

But independently of the expense, there is another and a far stronger objection to the use, as money, of gold, or any other *commodity*, or article possessing intrinsic value, viz., that every such article is subject to variation in quantity, so that it cannot maintain that uniformity in value, or that uniform relation to the extent of duties to be performed by it, which is essential to a proper currency system: an objection that applies with equal force to a system of paper money in which the quantity is made to fluctuate as a metallic currency would do. Such a system may save expense, but it must still leave the country that adopts it a prey to all the evils that result from a constantly fluctuating standard of value.

It will be observed, however, that though the name of "money" is applied to coins, or paper, such as I have now been treating of, the trade conducted through means of them is still only *barter*. One man barters his cattle for gold, another barters his gold for grain—the intrinsic value of the gold being in the one case regarded as equal to that of

the grain, and in the other to that of the cattle: and in countries where the governments do not possess the most undoubted stability, and where perfect security of property does not prevail, it seems to be the best form in which the operations of trade can be conducted, though in itself a comparatively rude contrivance, not more remarkable for its superiority to the direct barter of the savage, than for its inferiority to the abstract idea of money, regarded simply as an "instrument which men have agreed upon to facilitate the exchange of one commodity for another," * and not as a thing possessing inherent value, or as specially representing any one thing which does possess it. This pure idea of money seems, indeed, only once in the history of the world to have been fairly carried into practice. The Carthaginians, we read, used for money pieces of leather bearing a stamp, impressed by the government, shewing the value for which each piece was to pass. Whether the value of each piece was determined by its being made to represent a definite quantity of grain, or gold, or silver, or other specific commodity, as bank-notes now are; or whether the pieces of money were regarded as mere tickets or tokens, representing a given value of any commodity, the relative value of different commodities being already recognised, and being fixed according to the estimation in which they were respectively held, we have indeed no certain means of knowing; but in the absence of positive information to the contrary, and looking at the high commercial character of that people, we are

* Hume's "Essay on Money."

warranted in believing that their famed leather-money did not consist of mere receipts for gold, or silver, or other articles, fluctuating in amount as these commodities might happen to be abundant or scarce, and consequently subject to all the changes which their greater or less abundance might produce on their value; but formed a currency of a more scientific character,—contracting as their trade contracted, expanding as their trade expanded,—such as we may be assured will be adopted by all commercial nations, when the true principles of currency come to be better understood than they now are, and when we shall have got rid of that still prevailing delusion which accounts money an item of national wealth, and the superabundance of it an evidence of national prosperity.

When gold and silver are first used as the media of exchange, they are bartered for other commodities, on the principle that the piece of gold or silver given in return is the produce of an amount of labour exactly equal to the amount of labour which has been expended in the production of the commodity for which it is bartered; but when the use of these metals as money has become general, their exchangeable value ceases, practically at least, if not theoretically, to be regulated by such consideration, and depends neither on their cost of production, as the amount of labour employed in producing an article is termed, nor on their intrinsic value, as determined by the utility they could be held as possessing, were their use as money to be discontinued, but altogether on the relation existing between, on the one hand, the quantity of money

circulating in any country, and, on the other hand, the number and amount of the exchanges to be effected by means of it; and, accordingly, an increase in the quantity of money so circulating will generally be succeeded by a fall in its value, or, in other words, by a rise in the prices of the commodities for which it may have to be exchanged; while a diminution of that quantity will be followed by a rise in its value, or, in other words, by a fall in the prices of these commodities.

That the general tendency of an increase in the quantity of money is to raise prices, is a fact fully evidenced by the history of Europe since the discovery of America—the purchasing power of gold and silver having since then fallen to perhaps one-sixth of what it was before. And that this rise of prices is really the result of the increased quantity, seems also very obvious, though, at same time, it has been called in question.

It has been maintained that when gold or silver is the standard of money, a diminution in the cost of producing these metals "does of itself, and without the instrumentality of an extended currency, directly and instantly cause an elevation of general prices;"* and considerable research and imaginative ingenuity have been employed in attempting to trace a connexion between the progressive advance of prices which has taken place since the discovery of America, and certain improvements in metallurgy which have at different times been introduced, and the effect of which has been to obtain a given quantity of these metals

* Stirling on the Gold Discoveries.

at a smaller expenditure of labour. The entirely fanciful character of this notion may be rendered apparent by supposing the case that all the gold and silver in the world were annihilated, and that after a time a quantity of each, equal to what had been lost, came to be scattered over the face of the earth, in the shape of aërolites, so that much less labour should be required for collecting them than for extracting an equal weight of coal or iron from the bowels of the earth. Will any one maintain that, under such circumstances, the exchange value of gold and silver would fall to a level with that of coal or iron? We may rest assured that nothing of the sort would occur; but, on the contrary, the newly-found metals would at once assume the value that had been possessed by the lost gold and silver, whose place they supply, and prices of other commodities measured by them would undergo no change, as a consequence of the diminished cost of their production. The regulating principle in fixing the value of the gold and silver, either as metals, or when converted into money, would be the extent of their supply as compared with the extent of the demand, or the amount of exchanges to be effected by them.

The influence upon prices of an increase in the quantity of money in any country, is a point which has likewise formed the subject of discussion. It was maintained by Hume* that such increase will always be followed by an advance of general prices, and by increased production; while, on the con-

* "Essay on Money."

trary, Adam Smith* held that no such effect would follow, but that any addition to the currency beyond what was required to supply the necessary circulation, would immediately "overflow," and find its way abroad, leaving the amount actually circulating unchanged, and leaving prices unchanged also. Each of these opinions is to a certain extent true, and to a certain extent untrue,—their being true or untrue depending entirely on the peculiar circumstances of the community among whom the increase may take place; and I will now attempt to exhibit the real effects arising from an increase in the currency of any country, by means of the following illustration.

Let us suppose the case of two islands, which we shall distinguish as, respectively, "Island No. 1," or "First Island," and "Island No. 2," or "Second Island," each with a currency consisting of £100,000 in gold and silver money; and that some morning each inhabitant wakens to find in his drawer or in his pocket two pounds, two shillings, or two pence, for every *one* of these coins that he left there the night before, so that the whole quantity of money in each island, in place of being £100,000, is now £200,000, or double what it was previously. Now, the effect which this would have on prices would depend on whether the custom of lending money on interest does, or does not, prevail among their inhabitants.

Let us first turn to "Island No. 1," and assume that the lending of money at interest is unknown,

* "Wealth of Nations," book ii., ch. 2.

or at least is not practised. If each individual, on discovering what has happened, buries his increased treasure under ground for security, or deposits it in his drawer, there to remain till some distant event shall occur to call it forth, no effect whatever will be produced on prices; because, though the quantity of money actually in the country has been doubled, the quantity actually circulating continues unchanged, and it is evidently only the money actually added to the circulation, or sought to be added to it, that can have any effect in raising prices. But if, in place of hoarding it, each individual forthwith proceeds to the market, (which we shall suppose contains a supply of commodities just sufficient to meet the ordinary demands of the population), and there expends his newly-acquired wealth in the purchase of articles for consumption, an immediate and rapid advance of prices will be the consequence. If the whole community do so at once, then the effect will be to raise prices to exactly double what they were before; because, the supply of commodities continuing unchanged, while the effective demand—by which is meant, the desire to purchase, combined with the ability to pay—is twice as great as it was formerly, the holders of goods being unable, out of their unincreased stocks, to supply a double quantity to each purchaser, will advance their prices; so that the whole amount of money to be expended will just, as one-half of it did before, pass as the equivalent of the whole amount of commodities to be purchased, or will serve to buy them at prices the double of what were previously current.

But if, in place of the whole community going into

the market simultaneously, a few only go at once, so that some time elapses before the full extent of the demand comes to be felt, then those who first come into the market will supply their wants at the old prices; those who come a little later, and after the dealers have begun to notice that the demand is greater than usual, will have to submit to an advance on these prices; those who come later still may have to pay double; and those who come still later, when the stocks are nearly exhausted, may require to pay three or four times as much as those did who supplied their wants at an earlier stage;—the result of the whole being, however, that, just as before, the whole amount of money will be given for the whole amount of commodities in the market,—so that, the former being doubled, while the latter continues the same, the prices paid for the various commodities will be, on an average, just double what was paid before the increase in the stock of money, and just double what would have been payable had no such increase occurred.

In the case first supposed, where the whole community proceeded at once to the market, and where, as the consequence of the unusual demand, prices rose at one bound to double their former rate, it is evident that no one would, in the slightest degree, benefit by the increase that had taken place in their stock of money,—that increased stock having failed to give its holders any command of commodities additional to what half the amount was sufficient to confer before. But in the case afterwards supposed, where some went early to the market, and bought at the old scale of prices, while others went late, and

paid four times as much as they had been accustomed to do, and others again who went intermediately bought at prices rising gradually from the one of these scales to the other, then, undoubtedly, some would gain, but others would lose to a corresponding extent. Those who went first into the market would, in exchange for double the quantity of money, obtain double the quantity of commodities; those who went last would, in exchange for double the quantity of money, obtain only half the quantity of goods they had been accustomed to receive for half the quantity of money; while of those that went intermediately, some would obtain rather more, and others rather less, than they had been accustomed to obtain for half the quantity of money; but still, as before, there would be no accession to the general wealth, and where the buyers gained, the sellers would lose,—the gain of the sellers being, in like manner, only equal to the loss of the buyers. Prices of all commodities would continue to be one hundred per cent. higher than they were previously; an ox or a coat formerly worth only £3, would now be worth £6; an enumeration of the capital of the people would give a money amount twice as great as that formerly exhibited, but the real state of affairs would be no way changed, and their real wealth would (other things continuing the same) be neither greater nor less than it was before. It may be said that the gold contained in the money would of itself form an addition to the capital of the country; and it is true that, were it reduced to bullion, it would do so; but so long as it remained in the form of money,

it would add nothing to the capital, and would only serve to alter prices.

If we suppose that the accession to the stock of money took place in a different manner, then different consequences might result from it. Thus, if it originated in the fact that various individuals had settled in the country, bringing with them an amount equal to that formerly mentioned, and, as before, doubling the stock of money, which increased amount they proceeded forthwith, but gradually, to expend in the purchase of certain commodities, then the effect would be, by increasing the demand for these commodities, to raise their prices. This rise in prices would continue longer or shorter accordingly as the additional money might be longer or shorter in being expended. If expended rapidly, then an immediate advance of prices would be the consequence. If expended slowly, then years might elapse before the full effect on prices came to be realised. But whether slow or rapid in its operation, its ultimate effect would be, as before, (other things remaining the same), to cause a general advance in prices to a level one hundred per cent. above what formerly prevailed.

The illustration I have now given has proceeded on the assumption that the whole capital of the country belongs entirely to those by whom it is held; that the giving of credit is not practised; and that bills, bonds, and all pecuniary obligations, are unknown. If the capital of the country is not so held, but, on the contrary, is the property partly of

moneyed capitalists, and partly of propertied capitalists, then the alteration in the value of money supposed to have taken place is attended with consequences of a much more serious character, in as far as it has served entirely to change the position in which the two classes of capitalists stood with regard to each other. The whole capital continues as it was before, but the proportions in which it is now divided between these two classes is very materially altered. Thus, take the case of a landed estate, worth, before the supposed change in the value of money took place, we shall say, £20,000, held by A, subject to a mortgage to B of £10,000. The estate virtually belongs, one-half to A and one-half to B; and were it to be sold, each would receive £10,000 from its proceeds. But in consequence of the change in the value of money, the estate has now become to be worth £40,000. B's share in it remains as before, £10,000, but A's share, which was formerly worth only £10,000, is now worth £30,000. An admirable change this. B is no poorer than he was before, and A is £20,000 richer! The increase in A's wealth, however, is more nominal than real; and all that he has gained by the change is merely the equivalent of what has been lost by B. Now A holds three-fourths of the value of the property; B only one-fourth, in place of each holding one-half. It is true that B has still £10,000; but if he demands payment of his bond, and goes into the market to expend the money in the purchase of goods or property, he will find that it will command no more of either than, before the change took place, he could have obtained for half the sum; so that, continuing, nominally, as

rich as he was before, he has really been, by the supposed change in the value of money, rendered poorer to the extent of £5000. And, again, A, from the rise in the value of his estate, can sell it for a sum which will enable him to pay off B's bond for £10,000, and still leave him the possessor of £30,000. But if he goes into the market to expend the money in the purchase of goods or property, he will, like B, find that it will command no more of either than, before the change took place, he could have obtained for half the sum; so that, being nominally three times as rich as he was before, he is really no richer than, under the former scale of prices, he would have been with the possession of £15,000; and the real state of matters is this, that A has become fifty per cent. richer, and B has become fifty per cent. poorer. The former, in place of being worth only £10,000, is now really worth £15,000, (nominally worth £30,000); while the latter, in place of being worth £10,000, is now, though nominally worth that amount, really worth only £5000. The one has gained £5000, but the other has lost ~~as much~~. The change in the value of money has made no difference on the real capital of the country; it has only altered the shares in which it is held by the different classes of capitalists. Where there is neither lending of money nor selling of goods on credit, fluctuations on the currency do little good or harm to any one; but where one or both of these customs do exist, the case is altered, and most serious injury may result from them. Then the capital of a country may be compared to a rope, the opposite ends of which belong to, and are held respectively by, the moneyed capitalists and the pro-

pertied capitalists, the share falling to each being regulated by the fluctuations of the currency,—a fall in the value of money reducing the share of the moneyed capitalist, while it increases that of the propertied capitalist, and a rise in the value of money producing effects the exact opposite of these.

It does not appear that an increase in the quantity of money would, under conditions such as those detailed in the former of the above cases, have any effect in stimulating production. It might seem, at first sight, that the great rise in prices presumed to have taken place before the increased demand caused by the increase of money had been satisfied, would incite producers to greater exertion in bringing forward their commodities, so as to secure the benefit of the higher prices; but any effect of this kind could be only of momentary duration, as the increased demand will have been unaccompanied by any increase of consumption, the increase of consumption by those who come first into the market being compensated by the diminished consumption of those who were later in supplying their wants. The increase of money has not, as an increase of capital would have done, conferred on the community any increased power of buying commodities; it has only served to raise prices; there is, therefore, no increase in consumption; and, accordingly, nothing to afford inducement for increased production. In the case afterwards quoted, however, it would be different. The money has been then presumed to be brought gradually into the market, and during the whole time occupied in its expenditure, production would be stimulated.

Of Hume's observations on the effect of an increase in the quantity of money, one holds good in both cases, viz., that it tends to raise prices. But it does not appear that, in the circumstances enumerated in the former case, it would have any influence in stimulating production: while, as regards Adam Smith's notion (*supra*, p. 48), it has found no verification in the case before us; as it could apply only when a country had a foreign trade, which the island in question is presumed not to have had.

From the terms of the illustration here given, it might seem as if the whole money circulating in a country were to be regarded, which it sometimes has been, as the equivalent of all the commodities lying for sale in that country at any one time. Such, however, is not the meaning intended to be conveyed; and that such is not the case in reality, is evidenced by the fact, that while the moveable property in the United Kingdom is estimated at about £3,000,000,000, the whole money circulating in the country, in shape of gold, silver, and bank-notes, does not exceed about £60,000,000 or £70,000,000. The exchange value of the money is regulated, not by the amount of commodities, but by the average amount of them transferred by sale from one owner to another, still further affected by the rapidity with which it circulates from hand to hand, and by the economy practised in the use of it. Thus, in France, where the population is not much greater than in the United Kingdom, and where the trade carried on is very much less, the money in circulation is estimated at upwards of £100,000,000 sterling, being fifty

per cent. greater than the circulation of the United Kingdom; the reason of the extra currency required being, that the population is more thinly scattered, and the circulation consequently slower. And in our own country we find that the amount of money which at one time not only serves to supply all the circulating medium required for the carrying on its commercial operations, but leaves a large redundant balance, is at another time so insufficient for the supply of its wants, that, as the only means of averting almost universal bankruptcy, we see the government coming forward to suspend the laws of the land which had been formed expressly to prevent any increase in the quantity of money, and to authorise still greater issues,—the reason of the extra currency required being, in this case, that mutual confidence among mercantile men has come to be impaired, and that, in consequence, money circulates less rapidly.

Let us now proceed to "Island No. 2," and suppose that its inhabitants practise the lending of money at interest, and have banking institutions such as exist among ourselves; and let us suppose further, that each individual, on discovering his newly-found treasure, in place of burying it under ground, or depositing it in his drawer, or proceeding to the market and there expending it in the purchase of commodities, proceeds forthwith to the nearest bank, and there lodges the whole of it, to lie at interest till he shall see fit to withdraw it. It is evident that, under such circumstances, the increase in the amount

of money could have no direct influence in raising the prices of commodities. It would affect them, however, but it would do so only in an indirect manner; and the way in which it would operate would be by increasing the amount of money to be lent, to lower the rate of interest, to render the borrowing of money more easy, and thereby to afford increased facilities to producers to extend their production, making them, at the same time, less anxious to sell; while the buyers, having also increased facilities for carrying on their business, are more disposed than formerly to increase their purchases;—the result of the whole being to bring about an advance in prices of goods in general, and especially of those articles in which the production appears to be less than the consumption.

I have just said that the increase in the quantity of money would have the effect of reducing the rate of interest; but as this is a proposition, the truth of which is sometimes called in question, it may be well to examine it a little more minutely.

INTEREST is the term used to designate the compensation given for the loan of money, in contradistinction to that given for the loan of capital, which is called, respectively, rent or hire, accordingly as the capital lent may come under the class of heritable property, or moveable. Thus, we speak of the *rent* paid for the loan of a farm, a dwelling-house, a cotton-mill, &c.; of the *hire* paid for the loan of a ship, a carriage, a suit of clothes, &c.; and of the *interest* paid for the loan of money. The compensation paid for the loan of capital is always, except in the case of land, much greater than that paid for the loan of money, inas-

much as all capital, except land, being destroyed by using, the lender of it needs to have, in return for the loan of it, not only such annual sum as will serve to compensate him for the loss of the profit he might have made by using it himself, but also such additional amount as will, in course of the time which may be required for the destruction, by gradual decay, of the capital lent, serve to accumulate a fund sufficient to replace it. Thus, a cotton-mill, or a ship, the use of which, for ten or fifteen years, may be sufficient to reduce their value to a very low point, could not, to afford a reasonable return to the owner, be lent at the rate of rent or hire which would form a sufficient compensation for the use of an equal amount of capital invested in land; because at the end of any term of years, the two first may be nearly useless, while the last continues as valuable as ever. In this respect money resembles land. It is presumed that £1000, lent just now, is the same as £1000 will be in twelve months, or in twelve years hence; and, accordingly, the compensation given for the loan of money is generally fixed without any reference to change in its value.

Formerly, the consideration paid for the loan of money was called "usury," and the demanding any such consideration was deemed oppressive. This prejudice, no doubt, originated in the fact, that in those days the means of deriving profit from the use of money were limited; so that those who borrowed did so, not with a view to gain, but to relieve their immediate necessities; or, in the language of political economists, to consume unproductively. More enlightened ideas now prevail on the subject, and,

besides, the character of borrowers, and the object with which they generally borrow, are changed. Money is rarely lent to private individuals for unproductive consumption, but is given to be employed in business, and in the carrying out of enterprises which are expected to result in profit, and which, but for the assistance afforded by the loans so obtained, the borrower might have been unable to prosecute; and under such circumstances, no one considers it unreasonable that the lender of the money should receive from the borrower a certain remuneration, not only to compensate him for the loss of the profit he might have derived from the employment of the money himself, but also to afford a premium of insurance to cover the risk he runs of the loan never being repaid. This last element is one which, till of late years, was almost always lost sight of, and which even now is, to a great extent, very imperfectly understood even in our own land. Laws were formerly made in almost every country to prohibit the taking above a certain rate of interest; but in Great Britain the last remnant of these has, within a few months back, been blotted out of the statute-book, their repeal having been prompted by two important considerations—the one, that they were unjust, and the other, that they were inoperative. The commission to be charged for guaranteeing the payment of a bill at maturity was as little a subject for legislative interference as that for guaranteeing the arrival of a ship at her destined port; so that, though the law of this country prohibited the charging interest or discount at a higher rate than five per cent., there never was any law against charging commis-

sion; and accordingly, the only difference between the practice of money-lenders before the repeal of the usury laws, and since then, is, that whereas now they charge interest and discount in name of interest and discount, they charged them then partly under these names and partly under the name of commission.

I have used the words "interest of money,"—an expression objected to by some, who prefer the term "interest of capital." Why? "Because," they answer, "the money is valued, not for its own sake, but as it affords its possessor a power of acquiring, in exchange for it, such equivalent portion of capital or commodities as he may wish to obtain." I confess the alteration appears to me to be very little of an improvement, and to be one which, if consistently carried out, would introduce quite a revolution in our language. A labourer, we shall suppose, proceeds to the market, and there expends a shilling in the purchase of meal. He says he has bought a shilling's worth of meal. "Oh, no!" exclaims the consistent reformer, "he parted with his shilling, not for the meal, but for the sake of the nourishment which the swallowing of the meal will impart to his corporeal system; and therefore we ought to say he expended his shilling, not in the purchase of meal, but in the purchase of NUTRIMENT." The same may be said of clothing, of fuel, of all things; but everybody knows that clothing is valued only because the wearing of it promotes personal comfort, and adds, perhaps, to gentility of appearance—that fuel is valued for the sake of the heat which its combustion affords—and that all other things are, in like manner, valued, not

for their own sakes, but for the sake of something expected to be obtained through their possession; and it may be presumed that every one knows, too, that money is of no use except as a means of obtaining other things in exchange for it. But all departures from popular modes of expression are objectionable, unless the expression substituted be one calculated to lead to the formation of more distinct ideas, which the one in question most assuredly is not. The word "rent" at once suggests the idea of compensation for the use of heritable property; the word "hire" at once suggests the idea of compensation for service, or for the use of moveable property; and the word "interest," in like manner, suggests, and seems to me to be very properly used to express, the idea of compensation for the use of money.

But, to return from this digression,—I said that an increase in the quantity of money would tend to lower the rate of interest, in the settling of which the abundance or scarcity of that commodity always forms a very important element. Abundance of money is always accompanied by a low rate, and scarcity of money by a high rate of interest; but if money were never abundant, (that is, if we were freed from the evils of a redundant currency), and if money were never scarce, (that is, if we were freed from the evils of a contracted currency), if, in a word, money were to be regarded merely as "the instrument which men have agreed upon to facilitate the exchange of one commodity for another,"* and if it were to be issued just in such quantities as might be required to fit it for the efficient discharge of that

* Hume's "Essay on Money."

function, then the principle which would govern the rate of interest would be the relation existing between the amount of money-capital offered on loan, and the amount of the same required by borrowers. The demand would be regulated by the profit to be made by the use of money, or, what comes to the same thing, by the extent of loss which its possession might be the means of warding off,—the permanent rate of interest being governed by the former, and the temporary rate by the latter of these considerations; and, accordingly as the profits were high or low, so would borrowers be regulated in the interest they would be disposed to give for the loan of money. A fall in the rate of interest would tend (*ceteris paribus*) to increase the demand for loans, and a rise in the rate of interest would tend to check the demand. It is almost superfluous to add, that by demand I mean the "effective demand," that is, the demand of those who have security to offer; it being evident that, apart from that limitation, the demand for loans of money, as well as for every other commodity, would be almost unbounded. There is scarcely any amount of commodities that might not be disposed of, were they to be given to people who gave nothing in return; and there would be equally little difficulty in finding borrowers for any amount of money, were it to be lent to those who had no security to give for its repayment. The supply of loans would, in like manner, be, to some extent, regulated by the rate of interest, but only to some extent. In every country there are many owners of capital, who, possessing the ability to carry on business operations for their own account, may yet have no

particular inclination to do so, and who would be decided in their choice as to entering into business or not, by the rate of interest they could obtain by lending their stock to be traded upon by others. As regards these, it is evident, a high rate of interest would serve greatly to increase the supply of loans. But in most countries there are also numerous individuals, such as ladies, unacquainted with business, trustees, holding the funds of minors, or of charitable endowments, clergymen, physicians, and the like, who are precluded from employing their capital in trade, who can turn it to account only by lending it to others, and who would, of course, be glad to lend at almost any rate of interest, rather than not lend at all. But in no country, and at no time, (unless it may have been among the Carthaginians of old,) has interest ever been regulated by the relation existing between these two descriptions of capital,—that natural regulator having been always disturbed by the contractions and expansions, or short supply and over supply, of the circulating medium.

Every increase in the quantity of money in a country beyond what is necessary for the supply of its circulation forms a redundant currency, and, as such, exerts a powerful influence in depressing the rate of interest. In the case now supposed, previously to this increase of money, the currency is presumed to have been just sufficient to supply the wants of the community, so that the effect of the increase would be immensely to enlarge the stock of money with which the operations of the bankers were conducted. `To find employment for it would

be attended with difficulty, and each, to attract to himself as large a portion of business as possible, would be disposed to offer his money at reduced rates of interest; so that the competition among lenders might serve to depress it far below what might be regarded as its natural rate, and the rate which would have prevailed but for this increased currency.

It may be said, by those who confound money with capital, that the supposed increase of money would not depress interest more than an addition to the loanable capital of the country would do, whether arising from the fact of one or more propertied capitalists seeking to alter their position as such, by discontinuing the employment of their capital by themselves, and offering it on loan for employment by others, or from a positive increase in the capital of the country, caused, we shall suppose, by one or more individuals bringing into it property of an equal value, the proceeds of which they employ by lending them. The real effect, however, would be widely different; and a given amount added to the loan capital of the country might be unproductive of any perceptible effect on rate of interest, while an addition to the currency of an equal amount might cause a very considerable decline. This truth must, I think, be apparent to any one who will take the trouble to compare the effects on rate of interest which would be certain to follow an addition of five millions to the circulation (or issues) of the Bank of England, with the effect, or rather non-effect, on rate of interest which would result from the fact of a number of individuals possessing capital, say to amount of five millions,

discontinuing the employment of this capital in business, and lending it to others; or from the fact of a number of individuals returning, we shall suppose from a foreign country, and bringing with them a quantity of useful foreign commodities, the proceeds of which, amounting to an equal sum, they retain in this country, to be lent out at interest. An addition of five millions to the moneyed capital of this country, estimated at three thousand millions, would increase that amount only to the extent of one in six hundred, and would, without notice, immediately be absorbed in the general loan market; while an equal addition to the currency, estimated at about sixy millions, or thereby, would increase that amount to extent of eight and one-third per cent., and would, in an ordinary state of the money market, tend to lower the rate of interest in a proportion at least equal to, if not much greater than, that which the increase bore to the whole amount of circulating medium.

That any considerable addition to the currency is always, under ordinary circumstances, succeeded by a fall in the rate of interest, is a fact the reality of which no one who has had the opportunity of observation can possibly doubt; and down till the time of Hume, both theorists and practical men were accustomed to regard the two occurrences as standing in the relation of cause and effect. The correctness of this belief was called in question by Hume; and most of the theoretical writers who have treated of the subject since he wrote, have adopted his views, and have endeavoured, like him, to prove that, whether the one may be followed by the other

or not, there is no necessary connexion between them, so that the sequence must be viewed only as that of accidental coincidence. I have only seen two arguments used to prove the soundness of this view—the original one by Hume, which has been generally followed by subsequent writers, and one by M. Say, which I have not seen quoted by any other.

These arguments it may be well to consider for a moment; and I will give precedence to that of M. Say, not because it is first in point of date or of merit, but because its absurdity is so apparent, that it only requires to be distinctly stated to carry conviction of its folly to the mind of the reader. M. Say observes—"A disposable capital may exist in the form of a certain sort of merchandise, a sack of guineas, for instance; *but if the quantity of this merchandise which is in circulation has no influence on the rate of interest, the abundance or the scarcity of the gold has no influence on it either;*"* or, in plain words, if the abundance or scarcity of *sackfuls of merchandise* has no influence on the rate of *interest paid for the loan of money,* then the abundance or scarcity of *money* has no influence either!—which is a conclusion of the sort known by logicians, if I remember rightly, as a *non sequitur.*

Mr Hume's argument is of a more plausible character, and is presented in its most favourable point of view in the following passage, (the italics in which are mine,) extracted from Mr J. S. Mill's unequalled "Principles of Political Economy:"—"From the preceding considerations, it would be

* "Catechism of Political Economy," by J. B. Say, cap. 9.

seen, even were it not otherwise evident, how great an error it is to imagine that the rate of interest bears any necessary relation to the *quantity* or value of the money in circulation. *An increase of the currency has,* in itself, *no effect,* and is incapable of having any effect, *on the rate of interest.* A paper currency issued by government in the payment of its ordinary expenses, in however great excess it may be issued, affects the rate of interest in no manner whatever. It diminishes, indeed, the power of money to purchase commodities, but not the power of money to purchase money. If a hundred pounds will buy a perpetual annuity of four pounds a-year, a depreciation which makes the hundred pounds worth only half as much as before, has precisely the same effect on the four pounds, and, therefore, cannot alter the relation between the two."* Which passage, put into the syllogistic form, would, I think, read somewhat as follows:—

"A diminution in the value of a given coin, whereby, in place of being worth a cow, it has become insufficient for the purchase of a cat, will affect the rate of interest paid for the loan of such coins in no manner whatever:"

[A proposition this which I am sure needs no demonstration; and were it not that the remark might appear disrespectful to the memory of Mr Hume, I would be almost inclined to question whether there ever existed, out of his own imagination, any one who entertained the slightest doubts on the subject.]

"But an increase in the quantity of money

* Book iii., chap. 22, sect. 4.

may, under certain conditions, so diminish its value, that a given coin, which is now worth a cow, shall become insufficient for the purchase of a cat:"

[The truth of which is equally undeniable; but mark the conclusion]:—

"Therefore, an increase in the quantity of money can have no effect, and is incapable of having any effect, on the rate of interest!"

Or, more shortly, "an increase of the currency has no effect on the rate of interest." Why? Because a diminution in the value, or purchasing power, of money has no effect upon it!

Now, I am certain that no man of average intelligence really does believe that a diminution in the value of money can have any effect on rate of interest, or that one hundred guineas, containing each two pennyweights of gold, would not be as well worth five such coins as interest for the year's use of them, as a hundred guineas, containing each four pennyweights of gold, would be worth five such coins for a year's use of them; and with all deference to the high authority of Mr Mill, I cannot help thinking that this passage, as well as similar passages in the works of previous writers, indicates a vagueness of apprehension somewhat remarkable in men of the mental acuteness of that gentleman, and of many others who have made use of the same argument,—confounding, as it does, two separate things, namely, a fall in the value and an increase in the quantity; or depreciation arising from change in the quality (or value) of money, and depreciation arising from change in the quantity—things entirely different as regards the effects resulting from them. It is

most unquestionably true that a change in the value of money, arising from debasement of the coinage,* will have no effect in reducing the rate of interest, because, as Mr Mill correctly remarks, the depreciation affects equally the money lent, and the money paid as interest for the loan. And it is also true, that the same effect in diminishing the value of any given piece of money may, at least in certain circumstances, be produced by increased issues of money generally, as by altering the quantity of gold or silver contained in the individual coins; but it by no means follows that because debasement of the coinage does not affect interest, therefore an increase in the quantity of money will not affect it either: the fact being, that while increased issues have the effect, in common with debasement of the coinage, of lowering the value of money, they have the still further effect, not shared by the other, of lowering the rate of interest also.

I have said above (page 68), that I feel inclined to question whether any one ever really believed that diminution in the value of money could have any effect in reducing the rate of interest paid for the loan of it. Adam Smith† says, however, that such opinion was entertained by Mr Locke, Mr Law, and Mr Montesquieu, who, he adds, imagined that the increase of the quantity of gold and silver resulting from the discovery of America, was the real cause of the lowering of the rate of interest through the greater part of

* The reader will understand that the above remarks are made without reference to the question whether debasement of the coinage, unaccompanied by increase in its quantity, would lower the exchange value of money.

† "Wealth of Nations," book ii., chap. 4.

Europe, which began soon after that event occurred; and believed that, "those metals having become of less value themselves, the use of any particular portion of them necessarily became of less value too." There can be no doubt as to the accuracy of the former statement, and that these three eminent men did all believe that increased and increasing abundance of gold and silver money was *one* of the causes which brought about the lowering in rate of interest at the time spoken of: but great injustice, I suspect, has been done to them when they are charged with holding the opinion that the fall in rate of interest was the result of the fall in value of gold and silver; and I have been unable to discover in the writings of any of the three even a single passage which indicates that any one of them entertained such a notion. What Locke, and Law, and Montesquieu did believe on the subject was simply that which now every one knows to be the fact, namely, that increased abundance of money is always followed by reduced rates of interest; a mere change in the value of money (as by depreciation of the coinage) being unattended by any such consequence.

While, however, the *direct* and immediate effect of an increase in the quantity of money in any country is to lower the rate of interest, it operates, *indirectly*, in raising the rate of interest; and the way in which it does so is this: that abundance of money and low rates of interest have always (at least except under very extraordinary circumstances) the effect of stimulating trade and promoting speculation, and thereby bringing about a general rise of prices. A general rise of prices is only another term for

(what is called) a prosperous state of business; and in a prosperous state of business, people are always disposed to extend their operations, and, as a means of doing so, to borrow on an increased scale, so that the increased demand for loans tends to raise the rate of interest, and to counteract the depressing influence upon it of an expanded currency.

I look upon it, thus, as a matter to be taken for granted, that under the circumstances on which this illustration has proceeded, an addition of £100,000 to the imagined currency of £100,000, thereby doubling its amount, would have an immediate effect in bringing about a reduction in the rate of interest, and not only a temporary, but an *almost* permanent reduction below what, but for this increase, would have been the regular rate; and that, in place of proving a national blessing, as the political economists of former days would have considered it, this accession to the stock of gold money will prove to the community a source of unmitigated evil.

In the case first supposed, that is, of "Island No. 1," (*supra*, page 48,) we found that the increased quantity of money, being at once carried into the market for commodities, did, by direct operation, immediately, or pretty quickly, raise the prices of all commodities to the double of what they were before; and in the circumstances then supposed, the increased quantity of money continued to circulate from hand to hand, without producing any effect beyond the one just named, of causing every transfer of any commodity to be conducted with two

pieces of money, where before only one was required. But, in the present illustration, we have proceeded on the footing that the increased quantity of money has not, as in the former case, been brought to bear, directly, on the market for commodities, but has been thrown into the loan market, by being deposited with bankers, to secure the benefit of the interest allowed by them. The bankers, on receiving such an accession to the amount of their deposits, will, no doubt, lower the rate of interest allowed to depositors; and, to find employment for the money, they will also be disposed to accept a lower rate of interest from their borrowers, as well as, in all probability, to lend, if necessary, on security inferior to that which they formerly demanded. Traders finding it more easy to obtain banking facilities, will be disposed to enlarge their operations; they will lay in heavier stocks of goods; they will be less inclined to press sales; seeing that prices have been gradually advancing, they will look forward to a continued advance, and they will purchase with a view to selling at a profit when this further advance shall have taken place; they will be anxious to extend their production, with a view to which they will seek to engage additional labourers; but their neighbours are also disposed to engage additional labourers, so to secure a preference of their services, some employers will offer additional wages; the labouring classes will expend their advanced earnings in the purchase of commodities; the consumption of these is increased; a rise in price follows, and this rise speedily extends to goods of every description; all the manufacturing industry of the country is in a

state of activity; the general condition of the community is prosperous; and so things continue, prices rising higher and higher still. In the case formerly supposed, the advance in prices could not be more than one hundred per cent.; but in the circumstances of the case now before us, there would be no such limit to the advance of prices, which *might* go on *ad infinitum*,—slowly, if the money bore a small proportion to the capital of the island, rapidly, if it bore a great proportion.

In the former case, prices rose to double what they were before, and then everything returned to its former state of quiescence; but in this case the rise in prices results, not from the direct operation upon them of the increased currency, but from its indirect effect in promoting speculation, and it is only in so far as it does promote speculation that it will have any effect in raising prices. In the former case, the whole extra amount of currency was absorbed in the circulation, and its effects were at an end, except in as far as that every one who went to buy withdrew from his hoard double the quantity of money that would have been necessary before the increase in the currency came about, and in return received, in like manner, two coins where before he would have got only one, as the price of his commodities or the wages of his labour. But in the present case, the extra amount of currency is not absorbed in the circulation; it never can be absorbed; and so long as it exists, it will prove a source of evil, and bring, as its never-failing companions, speculation at one time, and panic at the other. I have said it never can be absorbed, that is, without an entire change in the

circumstances or habits of the people. Their trade may be doubled, or prices of all commodities may be quadrupled; but that will not cause a greater amount of money to remain in circulation, for the larger transactions are, the less money, generally speaking, is required for conducting them. An increase in the population (other things remaining the same) will admit of a larger amount of money being kept in circulation; but the constant tendency, where there is an increasing population, and an increasing business, is to economise the use of money; and the only circumstance which could lead to the absorption in the circulation of the supposed increase of currency, would be the abolition of all the banking institutions of the country. Were that to be done, then "Island No. 2" would be the same way situated as "Island No. 1;" prices would settle down, for a time, at least, one hundred per cent. above their former level, and the impetus to speculation would be withdrawn; but so long as banks continue to exist, and to allow interest (however small) on deposits, or so long as interest or advantage of any kind can accrue to the owners of money from lending it, so long will this increased stock form a redundant currency, and an incubus on the commerce of the people. The bankers may reduce their rate of interest to the lowest point; but neither by so doing, nor by any possible exercise of ingenuity, will they be able to get rid of it. Lend it as they will; speculate on their deposits by lending them without regard to the chance of their withdrawal, the extra supply of money will still return to them, just because it forms a "redundant currency," or a currency in excess of what is required for the proper

discharge of the duties of a currency, that is, in excess of what is required for carrying on the commercial exchanges of the people. The demand for the loan of capital, and also the power of supplying that demand, may increase without limit, unaccompanied by any increased necessity for money; and the loan transactions of the banks, and the general business of the community, may be extended in a tenfold degree, without a single additional money-token being required for the conducting of them.

So long as this surplus stock of money continues to float about, the tendency of prices will continue upwards. Such uninterrupted advance in prices could not, however, take place in any community such as we have yet known in the world; and the state of continuous "prosperity" now imagined could exist only among a people, the labour of whose members was so admirably adjusted that the production of all commodities progressed so equally, and so exactly in proportion to the want existing for them, that no one article should be produced in excess of that want, and consequently no glut of commodities should result. When civilization shall have advanced a few stages beyond the point at which it has yet arrived, such arrangements will, I have no doubt, be easily accomplished; but this point has not yet been reached. In the meantime, we find that any unusual impetus to trade is always followed by a production of some commodities in excess of others, in which case there is said to have been an over-production of the former; and the consequence is, an impossibility of finding purchasers for them, that is, parties not only willing to take them, (who can always be found),

but parties able to give in return commodities of equal value. We may therefore assume that this would be the case in our supposed island. Prices would continue to advance, till, in some branch of manufacture, whether from greater energy on the part of those engaged in it, or from its being a business of more agreeable character, thus inducing greater numbers to embark in it, or from any other cause, it is not material, the production should so far outstrip the production of other commodities, that the parties engaged in it should find it impossible to exchange their stocks, as they had formerly been accustomed to do, for such an amount of other commodities, or, what is tantamount thereto, for such an amount of money as should give them the command of an amount of other commodities, sufficient to compensate them for the capital represented by the goods they seek to dispose of.

But the parties engaged in the production of these goods are presumed to have availed themselves of the banking facilities supposed to have been liberally offered to them. They have, therefore, pecuniary liabilities to discharge, and they have only two alternatives — the one, to suspend payment, and the other, to discharge their liabilities by realising their stocks at the best prices they can obtain. Those who have the hope of being thereby enabled to meet their obligations, will adopt the latter course. Prices of the goods they deal in will thus tend downwards; other holders of similar goods will become alarmed, and, in the fear of a still further decline, will rush into the market to clear off their stocks; the panic will spread, till no one holding money will be dis-

posed to buy at any price; and this disinclination to buy will not be limited to the particular descriptions of goods in which the over-production has taken place, but will extend to all commodities; no one being able to realise his stock except at a sacrifice, those only will be able to meet their engagements whose position is unusually favourable; the traders of less capital will be compelled to fail; money, the supply of which was formerly so much in excess of the wants of the community, is now not to be had, even on the most undoubted security; interest, which was formerly very low, is now extravagantly high; the panic becomes general, and it ends in wide-spread bankruptcy, and in a general fall of prices to a level as low as, or lower than, that at which they stood before the supposed increase of currency took place.

But what has become of the money? It is all in the country still; but in place of circulating rapidly from one hand to another,—all beyond what was necessary for conducting the exchanges of commodities daily occurring, being at the close of each day deposited in the banks,—as was the case before, now, no one who can get money into his hands is willing to part with it; it circulates slowly, in place of quickly, and the consequence is, that the quantity, which was formerly double what the wants of the community required to conduct a large business, is now insufficient for the conducting of a comparatively limited amount of it. The evil under which the community now suffers most deeply is a want of *money*, or *circulating medium*, in place of, as formerly, a superfluity of it. It is not a want of *capital*, as will

be evident to any one who considers that the very origin of all this panic consisted of an excess of capital, that is, an over-production of some descriptions of capital (or commodities), as compared with the production of other descriptions of capital (or commodities). While there has been an over-production of one class, it is not implied that there has been any diminished production of other classes; the latter may also have increased, though they may not have increased in the same ratio as the former, so that the capital of this "Island No. 2" may be presumed to have been very much greater, both at the beginning and at the end of the supposed panic, than it was ever before; and thus the mischief cannot have arisen, as it has sometimes been *said* that similar commercial convulsions have done, from want of capital, but solely from want of the instrument of exchange, or money, acting on a state of society rendered in the most extreme degree susceptible, from the extent to which the system of trading on borrowed capital is presumed to have been carried.

It is a common observation, that during the panic period there is a greater demand for the loan of capital, and also for circulating medium (or bank-notes), than there is during the speculative period, which always comes before it in the commercial cycle. But it is an erroneous one. There is no greater *absolute* demand for the loan of capital, nor for money, in the former period than in the latter; and the circumstances which make it *appear* that there is such, are simply these—that the banks, who are presumed, in this imaginary community (as is the case among ourselves), to carry on the chief part

of their operations on borrowed capital, being in constant dread of their deposits being recalled (they being also presumed to be repayable on demand), are debarred by prudential considerations from lending their capital with the freedom with which they previously advanced it. Their capital is thus rendered for the time useless; while to have it in a form immediately available to meet the demands that may be made upon them by their depositors, it must be kept in the shape of money. Money is thus withdrawn from circulation. The quantity left floating is insufficient to provide the means of conducting the transactions of trade; and the general effect of the whole is this—that, without any diminution in the amount of loanable capital, without any increase in the demand for it by borrowers, without (it may be) any diminution in the amount of money in the country, and without any increased necessity for money, capital, in the form of money, comes to be almost unprocurable, even on the most undoubted security, and the consequences are, that prices of all commodities undergo a rapid decline, and bankruptcy and desolation follow.

Then, after the panic is over, how do matters stand? Simply thus:—Thousands have been reduced from affluence to poverty; but hundreds have been raised from affluence to greater wealth; for all that has taken place is merely a change in the money prices of commodities, and a transfer in the ownership of them from one to another. But there has been no destruction of capital. The commodities which were in the island before the panic began, are (its trade being presumed to be purely internal) all in the

island still (due allowance being made for ordinary consumption, which in a time of panic, generally, to a greater or less extent, exceeds the production), so that the whole capital or wealth of the community remains unaltered. A statistical report would now, from the fall in prices, estimate it at a smaller money value; but the whole capital is still there, and the difference that has been brought about by the fall in prices is simply to enrich those who occupy the position of moneyed capitalists, at the expense of those to whom, through the medium of money, their capital had been lent. The rise in prices that took place before had the opposite effect. Then the moneyed capitalists were the sufferers. Those who had payment of debts to receive, obtained payment in money of an inferior purchasing power to that which they had lent. Now, those who have payment of debts to receive, obtain payment in money possessing a purchasing power as much greater.

Thus far I have proceeded on the assumption that the trade of the island is altogether internal. If it be partly foreign, then the first difference observable would be, that panic would follow speculation at a much earlier date. When the trade was entirely a home one, all producers worked under equally favourable circumstances, and the increased banking facilities which stimulated one class of producers, would be equally available to all others; so that the production of each would be increased in a nearly corresponding proportion. But in the case of the people of this "Island No. 2" making goods, not for their own

use, but for the purpose of exchanging them for the products of other countries, the probability is, that the people of those other countries, not having had their production stimulated in the same degree, will have no correspondingly increased quantity of commodities to give to the people of "Island No. 2" in return for the increased supplies sent by them to their respective markets. The markets of these countries will, therefore, be (what is called) *glutted* with the products of "Island No. 2;" that is, they will have no equivalent amount of commodities to give in exchange for them; and the receipt by the people of "Island No. 2" of intelligence that such is the case, will bring about the same feeling of alarm and panic that I have above alluded to as resulting from "over-production," where the trade was only a home one.

Mutual confidence will be impaired. Those who have debts owing to them will endeavour to get them in as soon as possible. No one will be disposed to trust another; so that those who had been shipping goods to foreign markets, now supposed to be glutted with them, and who, we may assume, have been trading to a greater or less extent on borrowed capital, will forthwith write to their agents there, urging the immediate sale of their stocks, and the remittance of their proceeds—such being the only course that can be adopted to enable them to meet their business obligations, and to discharge the pressing demands of those by the loan of whose capital they have been enabled to carry on their extended operations.

I have just said that the people of these other countries have no increased quantity of commodities

to give in return for the increased quantities sent to their respective markets by the people of "Island No. 2." They have, however, a certain quantity of commodities of the description which they have been accustomed to give to the people of that island in return for commodities received from them; and which quantity—it being in excess of what they require for their own consumption—they would be well pleased to barter for the goods of their neighbours, and that in the same proportions as before. But the agents of the merchants of "Island No. 2" have imperative orders to realise at once; and so they rush into the market, each desirous immediately to exchange his stock for some commodity which, sent to "Island No. 2," may constitute a return to the merchant there, and afford him the means of paying his debts. But rushing into the market simultaneously, each seeking at once to dispose of his goods, the demands of the opposite dealers are raised; and the result is, that—in place of getting, in return for their increased quantity of "Second Island" goods, first, an increased quantity of foreign goods, which the shippers, no doubt, expected to get, but which, from the absence of any increase in the quantity of foreign goods, it is impossible they can get; or, second, a quantity of foreign goods equal to what they had been, in former years, accustomed to get for the smaller quantity of "Second Island" goods commonly sent to the different markets, which, in common fairness, they ought to have got—they end with getting, in return for their increased shipments, not an increased quantity, not even an equal quantity, but actually a less quantity of foreign goods than they

had been accustomed to get in exchange for the more moderate shipments of former years.

Now, it must be apparent to every one that the result of this year's shipments will be anything but satisfactory to the merchants of "Second Island." They sent away consignments greater than they ever did before; and they have got back an amount of returns less than they ever got before. Their consignments, too, were sent away when money was abundant, and prices of all commodities high; the commodities got back in return come in when money is scarce, and prices, consequently, are low. They thus lose at each end; and the result is, that many of their number are ruined; and those who are not so, are heavy losers; the winding up of the whole being, that, in so far as the making of goods for the supply of foreign markets is concerned, the increased production has, so far from being attended with advantage to the people of "Second Island," been a source of positive loss; they having, in return for all their extra labour, got a smaller amount of foreign commodities than they had been accustomed to get before for their smaller shipments.

The above illustration, commencing with page 81, has proceeded on the assumption that the trade of "Second Island" with other countries is one of simple barter; and that the goods of that island are exchanged directly for an equivalent of foreign commodities—no credit being given or taken. But if we now suppose that its commercial relations with other countries are of a more complicated character, and that its imports do not always form an exact coun-

terpart or representation of its exports, but that its import and export trade are carried on for, or by, different parties, the importers, being natives, paying for their purchases in foreign countries with bills drawn on "Second Island," and the exporters getting returns for the proceeds of their goods in bills, in place of, as before, getting back the commodities for which their goods were bartered; or the commodities imported into "Second Island" being sent there by and for account of foreign merchants, who take their returns in bills drawn on their respective countries by the merchants of "Second Island," who have been sending to these countries their manufactures, the proceeds of which they get back by selling bills to the foreign merchants; then the injurious effects of this increased currency would become still sooner apparent, and be still more marked in their character. The articles imported from abroad, coming into a market excited and rendered speculative by the influence of a redundant currency, would share in the general advance of prices resulting therefrom; while the goods sent abroad, going into markets where no such state of matters existed, would bring no advance of prices commensurate with the increased cost of production; for though it is a principle among certain theoretical writers on political economy, that the prices of commodities are regulated by cost of production, every *merchant* knows that the sole regulator of price in all markets, home and foreign, is the relation for the time existing between supply and demand. A fall of price below what is necessary to cover cost of production, will tend to diminish the supply, and also

to increase the demand; but in fixing the prices that people will give either for goods or for gold, the consideration of what it may have cost to produce them forms no element. The state of matters will therefore be, that imports will bring high prices in "Second Island," while the exports of its merchants will bring low prices in the countries they are sent to; and thus, though it may be that their exports are as great in quantity, and intrinsically as valuable, as they were in any former year; while, on the other hand, their imports are no greater in quantity, nor intrinsically more valuable than in any former year, the exports prove insufficient to pay for the imports; "Second Island" has a larger money amount to pay to foreign countries than it has to receive from them, and the bills drawn by its merchants on foreign countries are insufficient to afford a medium of remittance for all the money that has to be sent to these foreign countries, in return for the proceeds of their commodities sold in "Second Island;" or, in mercantile language, the exchanges become unfavourable to that island. The foreign merchants being unable to procure bills, and being indisposed to purchase goods, will select gold as a medium through which to remit the balance still to be sent; but the withdrawal of this from the money market, from the coin circulating in which it is presumed to be taken, will cause a feeling of alarm. Whereas, money was formerly in excess, now it becomes deficient in quantity; every one is unwilling to part with what he has of it; mutual distrust follows; prices of goods fall; traders become bankrupt; and panic and desolation follow.

But there is another channel still through which their redundant currency is likely to bring calamity, or blessing—as may be considered the best name—on the people of "Second Island." The abundance of money caused a reduction in the rate of interest. This would be unsatisfactory to the moneyed capitalists of the island. The island has been presumed to be in communication with foreign countries; and if interest be higher in them, while security to property is equal, or nearly so, to what it is in "Second Island," then the probability is that some of the moneyed capitalists of that island will send their money to these countries to secure the higher return there to be obtained for the loan of it. But how will they do this? By shipping the gold to the foreign countries in which they propose to invest it? The political economist may answer, Yes. But every intelligent merchant will say No. For so long as the exchanges are at par between two countries, no gold passes from the one to the other. Gold goes from one country to another when it is wanted to adjust an unfavourable balance of trade, but only then; and, accordingly, the way in which they will transmit their capital will be by purchasing, from such of their neighbours as send goods to these countries, bills drawn against the proceeds of their shipments, which bills they will remit to the agents abroad, to whom they intrust the investing of the money. Or, if the people of these countries are in the habit of sending "stocks" to "Second Island" for sale, then the capitalists of that island, in place of, as formerly, sending bills to agents abroad, for investment of the proceeds, will buy the foreign stocks so offered for

sale, paying the price of them to the agents through whom their foreign owners may have sold them. But the only further difference between the two modes of procedure will be, that the bills, formerly supposed to be purchased by the "Second Island" capitalists, will now be bought by the agents of the foreigners to whom the stocks belonged, and to whom they will be remitted; in both cases the result will be the same, namely, that the proceeds of the goods in question, being thus allowed to remain abroad, will cease to serve as payment for the commodities which may be supposed to have been imported from the countries in question, which will, therefore, turn the exchanges against "Second Island," and leave a balance due to these countries, which they, having already taken all of the products of that island which they wish to consume, will take payment of in the shape of gold. In the mean time, however, the gold remains in the country. Notwithstanding this transfer of capital for investment abroad, money continues as abundant as ever, and so will continue to be till the time comes round when returns have to be made for those foreign products imported into "Island No. 2," for which goods previously sent to the countries from whence they came would have afforded returns, had it not been that the proceeds of these goods have already been invested in foreign securities, as just mentioned. To supply the deficiency, gold is exported, and then follows that train of evils which the ingenuity of man has made to result from a short supply of the wonderful metal.

A considerable proportion of the redundant currency may be supposed to have been now got rid of;

and if it could be kept away, it would be well. But panic is irrational; and we find, accordingly, that prices of all commodities have fallen, not only to the level at which they stood before the currency of the island was doubled, and the speculation fomented by it had begun to operate, but so far below that level as to attract the notice of foreigners, who, accordingly bring back the gold which they lately took away, and which they obtained in payment of their commodities sold at the high prices prevailing under an inflated currency, and invest it in the purchase of commodities which they buy at the prices prevailing during a period of panic, and under a currency now as much contracted as it was before expanded; and so, in place of being permanently relieved of this golden incubus, it comes back, in the first instance, to impoverish the nation, and, in the next, to bring again speculation, to be followed, as before, by panic, and so on, on, on.

Now, in this last case, (that is, where the trade is partly foreign,) the evils that have resulted to the community are far more serious than in the one previously quoted. Then the trade of the island being purely internal, its capital remained at the end of the panic *pretty much* the same as it had been at the beginning of it. Much suffering was endured, from loss of property; but, on the other hand, great advantages resulted to some from unexpected accessions to their fortunes—almost all that was lost by the sufferers having been clear gain to some of their neighbours. But where the trade of the island is foreign, then an equal amount of suffering is endured,

while the consolation is wanting that the loss of one part of the population is gain to another part. Some of the gain will undoubtedly remain within the island. A rise in the value of money will always benefit the moneyed capitalists at the expense of the propertied capitalists; but in this case the moneyed capitalists of the island get only a share of what is lost to their neighbours, and the remainder of that loss will accrue to the people of other countries.

We have seen that, on the first symptom of panic, those who had been shipping goods to foreign markets sent imperative orders to their agents there at once to sell their stocks for what they would bring, and remit them the proceeds; and that their agents, acting under these orders, did forthwith sell their goods for what they would bring, which proved to be a great deal less than, had they been sold in the ordinary course of business, and not been forced on the market, they would have brought,—being, in fact, less than had in former years been obtained for the smaller supplies then sent; so that, as regards the foreign trade of "Island No. 2," the effect of the increased production of its manufactures has only been to enrich the people with whom they traded, who, through the headlong haste of the merchants of that island to realise,—a haste rendered necessary by the system of trading on borrowed capital presumed to exist among them,—have been enabled to obtain all that increased production, and that, too, at a reduction of price not relative merely, but absolute; not only have they given no increased quantity of their own commodities in return, but

actually a less quantity than they had been accustomed to give before for the smaller supplies then received of "Second Island" goods. And, accordingly, not only have the people of "Second Island" been left without any advantage arising to them from their increased industry, but they have got in return even a smaller quantity of foreign commodities than they had got in former years when their production and their shipments were on a more limited scale.

They have now got rid of their redundant gold; not, however, to remain away for ever, but just to wait till the absence of it, acting in combination with blind panic, shall have reduced prices of all the products of "Second Island" to a point so low as to induce the foreigners who have obtained this gold to send it back in exchange for goods at prices fifty or sixty per cent. below what they could be made for. All this implies loss to the members of the community of "Second Island," unrecompensed by corresponding gain to other members,—the loss to them being, so far, gain only to the people of foreign countries, who have been enabled to turn the commercial convulsions of that island to their own advantage, and to enrich themselves at the expense of its population.

Unnatural excitement, however, can be of only temporary duration. After a time, things settle down, and commerce begins again to resume activity; confidence is restored; prices have fallen as low as they ever were before; people think they are sure to rise; money has again become abundant; interest

has again become moderate; it is now easy to borrow; and so speculation begins again; and prices rise higher, and higher, and higher, and so continue till panic comes again, bringing in its train bankruptcy and extensive misery, and then follows abundant money, and then speculation, and then panic, and so on, and on to the end of time, or till the community, through the spread of intelligence among themselves or their rulers, shall get rid of this fairy gift of gold, which has been the grand cause of all the fancied prosperity and the real misery which would accompany the series of events I have now endeavoured to describe.

"Get rid of this fairy gift of gold?" Certainly, people of "Second Island!" "Reject the brilliant results that flowed from it, of rising prices, and fortunes rapidly acquired?" By all means: unless you can retain the risen prices and the rapidly-acquired fortunes, and at same time keep away the falling prices and the as rapidly lost fortunes which are sure to succeed,—a consummation this which it would be somewhat difficult to reach, and which even a repetition of the gold-gift would be powerless to attain. There are only two alternatives before you—the one is, to let things remain as they are, with panic succeeding speculation in unceasing round, to convert your people into a nation of gamblers; and the other is, to get rid of your fairy gift of gold, or, in other words, of your redundant currency.

But how is this to be accomplished? Very easily. Before this fairy gift of gold made its appearance,

there was in the island £100,000, which was sufficient for all the purposes of trade and commerce. Now there is £200,000, being £100,000 more than is needed. Let the government forthwith impose a tax, which will produce £100,000; put the money, as soon as collected, into a cellar, and there let it remain, under lock and key, till it can be better disposed of. Such a heavy tax would likely create some dissatisfaction among the people of "Second Island," and the withdrawal of so much money from the tills of the banks where it had been accustomed to lie would create a feeling of insufficient currency; a rise of interest would follow, and panic and alarm might be apt to come after it. These, however, would be easily prevented; and all that would be required to prevent them would simply be for the government to announce that, at a certain specified rate of interest, parties wanting money, and able to furnish satisfactory security, should obtain it. None would be applied for; because the supposed want is imaginary, not real; it is the effect of panic, not of reason: and the knowledge that if money should be wanted it could be obtained, would be all that would be required to allay the fears of the most timorous.

Then as regards the ultimate disposal of the gold. If need be, if the people are *very ignorant*, or if they have surrendered their intellect to the absurdities of political economy (so called), then let them imagine, if they like, that it continues in the cellar in which it is at first stowed away. If left there, however, all that can be said of it will be that it can do no harm; while everything that nature produces is intended to do some good; but how to turn it best

to account will depend on circumstances. If the nation be a poor one, then let it be shipped off forthwith to some place where it can be made more useful, and there let it be exchanged for machinery, or such other articles as may, by being imported into "Second Island," tend most effectually to promote the agricultural or manufacturing improvement of its people; while if the nation be a rich one, then let the gold be applied to the architectural decoration of their churches and dwellings, or sent abroad in exchange for works of art, the introduction of which will refine their taste, and increase their rational enjoyment.

I have now endeavoured to lay before the reader a sketch of the consequences which would flow, under certain specified conditions, from an increase in the amount of currency in an imaginary community: and if for an unknown island he will be pleased to substitute the United Kingdom of Great Britain and Ireland, and for a miraculous increase of gold to read a non-miraculous increase of paper, I think he will find that the picture will serve equally well for our own country, and that some inferences may be drawn from the narrative of a practically important character. The picture seems to me, indeed, (due allowance being made for the difference between a purely metallic and a partly paper currency,) to form pretty much a counterpart of what it would be were it designed to represent the leading characteristics of one of those cycles, a continual succession of which has constituted our commercial history for sixty years back, and the study of it may enable us

more easily to trace to their origin those periodical convulsions to which our mercantile career has been so long subject.

If the foregoing sketch gives a true representation of the effects which would flow from an increase in the amount of currency under circumstances such as those detailed, the following inferences may be deduced from it.

First. It was laid down by Hume as an axiom—and in this he has been very generally followed by subsequent writers—that, *under all circumstances,* an increase in the quantity of money circulating in any country will be followed by a rise in prices exactly in accordance with the proportion which the increase in the quantity may bear to the amount previously circulating; that is, that if the whole money circulating be doubled, prices will rise one hundred per cent.; that if it be increased one-half, then prices will advance fifty per cent., and so on. But from what we have seen in the foregoing sketch, it would appear that this holds good only in countries where the lending of money at interest is not practised; and that where the custom of taking interest for the loan of money prevails, the only way in which an increase in the quantity of money will come to have any effect on prices will be by causing the borrowing of money to be more easy, and that at lower rates of interest,—thereby giving an impetus to speculation, from which advanced prices will naturally follow; so that, if the increase in the quantity of money fails to excite a spirit of speculation, prices of commodities will continue exactly as they would have been had no

increase taken ~~taken~~ place. And it would also appear that, under such circumstances, the advance of prices would not be (as it would be in a country where lending at interest was unknown, and as Hume supposed it would be in every case) an advance only according to the proportion which the addition to the currency bore to its former amount, but that this increase of currency might affect prices to an extent immeasurably greater. Where lending at interest was unknown, an increase of one hundred per cent. in the currency would be at once absorbed in the circulation, and would at once double the average of prices of all commodities. An increase of fifty per cent. would add one-half to the average prices of all commodities, and so on. But in a country with banking institutions, an addition of ten per cent. to the currency might serve so to reduce interest of money, and so to stimulate speculation, as to lead to an advance of prices quite unlimited.

Second. It was maintained by Hume that an increase in the quantity of money circulating in any country had no effect in reducing interest. But from what has been stated in the foregoing sketch, it would appear that a fall in interest is the inevitable consequence of such an increase, *other things remaining the same.* This is a very necessary qualification, as the value of money in any country, and the rate of interest also, depends not only on the relation that exists between the supply of money and the number of exchanges to be effected by it, but also on the rapidity with which it circulates from one hand to another,—this, again, being regulated by the state of mutual confidence among merchants. When confi-

dence is high, people consider it unnecessary to provide for the due discharge of their pecuniary liabilities till such time as they approach maturity, because they have the assurance that when money shall be required, it will be easily obtained; but when a different state of things prevails, and when confidence has become impaired, then they consider it necessary to provide for contingencies, by holding in reserve all the money they can command, the loss of interest arising from that—which in ordinary times they would not think of submitting to—being little regarded, in comparison with the risk of being unable to obtain money when it may be needed. The hoarding which results from such a want of confidence makes a very material difference in the amount of money required for conducting the pecuniary transactions of a country,—a difference strikingly illustrated by the fact, that in October, 1847, the amount of Bank of England notes in the hands of the public was £20,800,000; and yet such was then the scarcity of money in London, that houses of the most undoubted solvency were unable to obtain it on security bills of the highest class, or even of silver bullion; while in March, 1848, the amount of Bank of England notes circulating was only £17,700,000, and (in the words of Mr Gurney), "there was no banker in London who had not in his safe more notes than he could make use of."* In the one case, the amount of money in circulation was *absolutely* large, but *relatively* small; in the other, it was *absolutely* small, but *relatively* large. The former was a period of alarm; and increased as the money in

* Lords' Report of 1848. No. 2645.

hands of the public was, it was still insufficient to counterbalance the slowness of circulation, caused by the universal panic that existed; the latter was a period of mutual confidence, and contracted as the currency had become, it was still redundant. It is evident that an increase of money under such circumstances would have no effect in lowering interest; its only effect would be to prevent interest rising so high as it otherwise would do. But it is a fact, known to every merchant and banker, that, in ordinary circumstances, an increase in the quantity of money is always succeeded by a fall in rate of interest; and the logic by which Mr Hume sought to prove that an increase of currency ought not to have this effect, has been shewn to be unsound, and to have proceeded from a confusion of ideas as to the results flowing respectively from increased quantity and diminished value of money. To prevent the possibility of misapprehension, it may be well to add, that the effect upon rate of interest, produced by a contraction of the currency, would cease so soon as that contraction should have arrived at its extreme point, and so soon as its effect upon prices should have been fully realised, in reducing them to that lower level which the reduced extent of the circulation should alone be sufficient to sustain. Prices of commodities being once brought down to this level, *and the amount of currency being preserved in exact accordance with the requirements of the circulation*, then interest would return to its natural rate; that is, to the rate determined by the supply of loanable capital on the one hand, and the demand for it by borrowers on the other. But to the intelligent reader it will

be evident that, to preserve that exact proportion between the amount of currency and the requirements of the circulation, is a thing which, with a currency metallic, or fluctuating as a metallic currency would do, is altogether unattainable; for, with such a system, no sooner should prices fall to their supposed low level, than confidence would come to be restored; the currency, the previous contraction of which was *relative*, not *absolute*, would come to be redundant, and then speculation would follow as one effect of this redundancy, and unnatural depression of rate of interest as another.

Third. In opposition to the opinion of Hume, who held that additions to the currency of a country would immediately be absorbed in the circulation, and operate directly in raising prices of all commodities, Adam Smith maintained that they would *not* be absorbed in the circulation, and that the amount of currency in excess of what was required for circulation would at once "overflow," and seek employment abroad, leaving prices unaltered.

As this involves several points of great importance, it may be well to quote at length the passage in which Dr Smith discusses the subject. "Let us," he says, "suppose, for example, that the whole circulating money of some particular country amounted, at a particular time, to one million sterling,—that sum being then sufficient for circulating the whole annual produce of their land and labour; let us suppose, too, that some time thereafter different banks and bankers issued promissory notes, payable to the bearer, to the extent of one million, reserving, in their different coffers, two hundred thousand pounds for answering

occasional demands; there would remain, therefore, in circulation, eight hundred thousand pounds in gold and silver, and a million of bank-notes, or eighteen hundred thousand pounds of paper and money together. But the annual produce of the land and labour of the country had before required only one million to circulate and distribute it to its proper consumers, and that annual produce cannot be immediately augmented by those operations of banking. One million, therefore, will be sufficient to circulate it after them. The goods to be bought and sold being precisely the same as before, the same quantity of money will be sufficient for buying and selling them. The channel of circulation, if I may be allowed such an expression, will remain precisely the same as before. One million we have supposed sufficient to fill that channel. Whatever, therefore, is poured into it beyond this sum, cannot run into it, but must overflow. One million eight hundred thousand pounds are poured into it; eight hundred thousand pounds, therefore, must overflow,—that sum being over and above what can be employed in the circulation of the country. But though this sum cannot be employed at home, it is too valuable to be allowed to lie idle. It will therefore be sent abroad, in order to seek that profitable employment which it cannot find at home. But the paper cannot go abroad, because, at a distance from the banks which issue it, and from the country in which payment of it can be exacted by law, it will not be received in common payments. Gold and silver, therefore, to the amount of eight hundred thousand pounds, will be sent abroad, and the channel of home circulation

will remain filled with a million of paper, instead of a million of those metals which filled it before." * He then goes on to remark that the gold and silver thus exported will be laid out in the purchase of foreign goods, either to supply the consumption of some foreign country, by what is called the carrying trade, or to supply the consumption of the country they have been sent out of; and he observes afterwards,—"The increase of paper money, it has been said, by augmenting the quantity, and consequently diminishing the value, of the whole currency, necessarily augments the money price of commodities; but as the quantity of gold and silver, which is taken from the currency, is always equal to the quantity of paper which is added to it, paper money does not necessarily increase the quantity of the whole currency," nor (it is implied) augment the money price of commodities.†

In these observations of Adam Smith's, there are two points calling for special comment. 1*st*, That increased issues of money cannot be absorbed in the circulation of a country presumed to be already sufficient. And, 2*d*, That increased issues of money will cause the circulation to overflow, and will cause an equal amount of the gold and silver (presumed to be circulating) to find their way abroad, without augmenting the money prices of commodities.

1*st*, "That increased issues of money cannot be absorbed in the circulation of a country, that circulation being presumed to be already sufficient,"—is certainly untrue as regards a country where lending

* "Wealth of Nations," book ii., chap. 2.

† Ibid.

at interest, and, consequently, banking institutions, are unknown. In such a state of society, the only way in which the money could be got into circulation would be by those who possessed it giving it in exchange for commodities, and having been once brought into circulation, it must (except in so far as it may come to be hoarded,) continue to circulate; or, in other words, be absorbed in the circulation. But it is as certainly true that in a country where banking institutions exist, and where, consequently, the lending of money at interest is practised, the amount of money actually circulating in it does not admit of being increased, or at least of being so by any means which can be supposed to be under the control of the bankers, by whom the issues in question are presumed to be made. In the one case, the money is *given* in exchange for goods or services. But in the other case, the money is not given; it is *lent*, and that, it is to be presumed, only to parties possessed of some means, who are bound, after the expiry of a certain period, to return it to those from whom they borrowed it, with addition of a certain amount in shape of interest for the loan of it; and as soon as it has answered the end for which they obtained it,—say, by paying for certain goods purchased,—it will find its way back to the banker by whom it was issued, to secure for its then owner the benefit of that interest which bankers generally allow on money deposited with them. In the one case, it will swell the amount of money in circulation; in the other, it will have no such effect.

This is a point on which, I believe, practical bankers are *unanimous*. Theorists, however, have

taken a different view of the subject. In the words of Mr Ricardo, "a circulation can never be so abundant as to overflow; for by diminishing its value, in the same proportion you will increase its quantity; and by increasing its value, diminish its quantity:" the meaning intended to be conveyed by this hazy pomposity being, apparently, that all additions to the currency would at once be absorbed in the circulation, raising prices in a corresponding degree; and his followers have accordingly maintained, that those to whom has been entrusted the privilege of issuing bank-notes payable in gold to the bearer on demand, may increase the circulation of the country to any extent almost to which they may feel disposed to do it; and so decided have they been as to the reality of this power, that a great amount of very unprofitable legislation has been employed to check and curtail it. The notion that such power exists forms, indeed, a fundamental principle in the Acts of 1844 and 1845, by which the currency of the United Kingdom is now regulated; and it may, therefore, be well to inquire how far that notion has any actual foundation.

The ground on which those have proceeded who believe that bankers having the privilege of issuing bank-notes may increase their circulation at pleasure, is, that by means of their issues they may increase their advances to any extent; and they presume that by increasing their advances, they must also increase their circulation in a corresponding degree. Now, no one who glances over a table of the assets and liabilities of the Bank of England can fail to observe the entire absence of anything

like uniformity of proportion between its securities and its circulation; the former frequently indicating that their advances to merchants are unusually large, while the latter has undergone no extension. Two striking illustrations of this may be given from the history of the bank, in 1835 and 1846. In the former of these years, it made use of the West India deposits, and of the loan from the East India Company, in extended advances to the public; while, at same time, the amount of notes in circulation was actually undergoing diminution. And in the latter of these years, when the payment of the railway deposits was made to the bank, its securities were increased to about thirty millions; while the amount of notes in the hands of the public was not enlarged.*

But the entire absence of any power on the part of bankers to increase the circulation may be clearly seen by inquiring what are the means by which alone they could attempt to do it. Suppose, then, the case of a bank which has a circulation of £200,000, and which discounts or advances to its customers to the extent of £40,000 daily. Does any one imagine that by increasing their discounts to £60,000 per day, they should be enabled to increase their circulation to £300,000, or in almost any degree at all? Most assuredly they could not. The increased accommodation afforded to their customers would enable them greatly to extend their business transactions; but this would in no way tend to increase the circulation of the notes given to them by their banker. If, immediately on get-

* Lords' Report of 1848. No. 3099.

ting the advances, they employed them in paying for goods which they had bought, then the parties getting the notes in payment, would either themselves, or through those to whom they may again have paid them away, send them to a bank, it might be in payment of a bill becoming due at it, or if not, to appear at credit of their account with the bank. And so, if they did not require to pay them away, the parties to whom the advances were made would at once return them to the bank from whom they obtained them, to appear at credit of their current account, and to secure the benefit of the interest presumed to be allowed by the bank on deposits; but certainly no one would ever think of keeping the notes locked up in his safe, so as to increase the bank's circulation. Most would be anxious to save interest, while those who disregarded the loss of that, or did business with banks which allowed no interest on deposits, would be anxious to secure the deference which bankers are apt to shew to those who have large balances at credit of their accounts. And thus, on the same day on which the notes were issued, a large proportion of them would be returned in payment of bills falling due, or in shape of deposits; and the whole, or nearly the whole, of the balance would make their appearance on the first day after, on which it might be the custom of the place for the different banks to exchange notes; when, in all probability, an amount equal, or nearly so, to the whole excess of their issues, beyond what they had been accustomed to give out, would have to be paid to the banks holding them, in gold, or Bank of England notes,

or Exchequer Bills, as the custom of the place might be.

It is true, however, that if freed from the obligation of so paying their notes, and if they allowed no interest on deposits, then they might swell the circulation greatly by means of increased issues. But so long as banks of issue throughout the United Kingdom are liable to be compelled to pay their notes in gold, or in what, as regards them, is the same thing, Bank of England notes, or even in the absence of such obligation, so long as they allow interest on notes deposited with them, at a rate at all approaching that at which they lend them, so long must they remain utterly destitute of power to increase the circulation of the country beyond the measure of what its wants demand.

There are some departments of business in which (where, as in Scotland and Ireland, one-pound notes are used) the power of giving extended circulation to small notes is much greater than in others, such as that of engineers, railway contractors, and all others who employ numbers of workmen at rates of wages so high that each man shall, at the pay-day, be entitled to receive one or more pounds in payment of his services; and it is evident that the A bank, by canvassing for the business of such traders, and holding out to them unusual advantages, might withdraw them from the B bank, with which they have hitherto been dealing, and by getting them to use their (A bank) notes for payment of their wages, might increase their circulation. But this would only be to increase the circulation of one bank at the expense of that of another. The whole amount of notes circulating in

the district would remain exactly as it was before the efforts of the A bank for extending its circulation were begun; and no steps that could be taken by one bank, or by any combination of banks, could, by possibility, increase the amount of notes circulating throughout the country, unless the steps so taken should involve a diminishing of the opportunities enjoyed by the population of returning to the banks their surplus money.

At present, in Scotland, every city, town, or even village, with any considerable number of inhabitants, has a bank; and every man in business, whose transactions are not on the most limited scale, has an account with a bank, in which, at the close of bank hours, each day, he deposits all the money, amounting to £5, or the multiples of that sum, which he may have beside him, reserving only such small amount as may be required to meet any trifling demands that may be made upon him before the bank again opens. It is apparent that, under such circumstances, a much smaller amount only of money can be kept in circulation than, with a similar amount of business, would circulate in a country where banks were more rare, or where the custom of keeping a bank account was less general, or where fewer facilities were afforded for the reception of deposits; and it must be seen by every one that a combination among the banks of Scotland, by which the number of banks, or branches, should be diminished, so that towns and villages now possessing banks, or bank-branches, should possess them no longer; or by which the facilities for making deposits should be lessened, as by increasing the scale of deposits admitted, from £5 and its multiples, to £10

and its multiples, or £20 and its multiples; so that, in place of people being allowed to lodge sums of £5, £10, £15, and so on, they should be allowed to lodge no sums smaller than £10, or intermediate between £10, £20, £30, and so on; nor smaller than £20, or intermediate between £20, £40, £60, and so on, would have the effect of increasing to a considerable extent the circulation of the country; which effect would also result from an abandonment by people in business of the custom of depositing their spare cash in banks. But the occurrence of these two contingencies is beyond the bounds of probability; and I am strongly inclined to believe that the former is the only plan by which the banks, and the latter the only one by which the public, could bring about any increase in the actual circulation.

It is true, that in each of the three kingdoms the circulation fluctuates constantly in amount, and with a remarkable degree of regularity. Thus, the circulation of the Bank of England is always greater in the months of January, April, July, and October, than in the other months of the year; because in these four months the dividends are paid to the holders of the national debt. Among the country banks of England the circulation is always at its highest amount in the month of April, after which it descends till August, when it is usually at its lowest point. It then gradually increases till November, a slight reaction takes place in December, and then it again advances till it has again reached the highest point in April. The fluctuations in this case being, no doubt, dependent on the peculiarities of the different sorts of trade carried on, and also, to a great extent,

on the operations of agriculture. In Scotland, the circulation is always at its highest elevation in May and November; these being the months of the half-yearly terms at which all rents, annuities, feu-duties, interest on mortgages, and servants' wages, are payable. The circulation begins to enlarge a number of weeks before each of these months, from the circumstance of parties commencing to collect money for payment of rents and servants' wages; and when the term days have passed, the circulation contracts, and continues on a diminished scale till the next half-yearly term approaches. In Ireland, the circulation is at its highest point in January; after which it declines till it reaches its lowest point in August or September, when it again expands; the cause of the fluctuation being, that Ireland is chiefly an agricultural country, and that it is between August and January that the trade in grain, bacon, and cattle is most extensively carried on.* But it will be observed that those fluctuations all result from circumstances connected with trade or agriculture, and that banks can have no control over them.

The remarks made in the last paragraph but one, as regards Scotland, apply, of course, to every country possessing banking institutions; and I think we are fully warranted, therefore, in receiving Adam Smith's doctrine, "that increased issues of money cannot be absorbed in the circulation of a country—that circulation being presumed to be already sufficient," and that country being presumed to possess banking institutions, as one whose soundness is confirmed both by reason and by experience; and I think

* Gilbert's "Practical Treatise on Banking," vol. ii.

we are also warranted in coming to the conclusion that the opposite opinion, maintained by Mr Ricardo, is unsound, and that the clamours which have, from time to time, been raised by the advocates of the Bank of England, against the private and joint-stock banks, for unduly increasing the circulation of the country, are utterly baseless. It may be, and doubtless, in many cases, has been true, that these banks encourage speculation by the competition existing among them to find employment for their capital, leading them to give facilities to parties who employ these facilities in an injudicious manner. It may also be true, that in many cases they have done this to such an extent that when times of panic appeared they were unable to meet their liabilities. But all this had very little connexion, indeed, with the power they enjoyed of issuing bank-notes, and really proceeded from an improper use of their own capital, and especially of their deposits. The power of issuing notes answered the same purpose as an addition to their capital to extent of the average amount of their circulation; but there are very few cases in which the circulation of any bank, other than the Bank of England, forms more than an exceedingly small item compared with the united amount of its capital and its deposits. Thus, in Scotland, the gross capital of the banks of issue is about £12,000,000, while their authorised circulation is £3,087,209,—being only about twenty-five per cent. on amount of their capital. But, to shew their means, we must add their deposits to their capital, and the two together amount to not less than £40,000,000 to £42,000,000; so that their privilege of issuing notes

makes an addition to their whole means to an extent not greater than seven to seven one-half per cent. In England, where, with a population seven times as great as that of Scotland, the whole issues of the private and joint-stock banks amount only to about £8,000,000, I presume the addition made thereby to their means must bear a still smaller proportion to their capital and deposits than with the Scotch banks; and it may, accordingly, be affirmed, that all the impetus ever given to speculation by private or joint-stock banks in this country, has been given by means of their capital and deposits, and not at all by means of increased issues; the difficulty of finding employment for their capital and deposits arising from this, that the amount of capital possessed by those desiring to employ it by lending it, is, for the time, greater than the demand existing for it among trustworthy borrowers.

With the Bank of England, however, the case is widely different. She has a power of increasing, if not her circulation, at least her interest-yielding issues, to a great extent; and it is the exercise of that power, operating in conjunction with the delusion which causes it to be regarded as necessary, or rather, I should say, the vicious system of non-expansiveness in the currency, which makes it actually to be necessary for all bankers to hold in reserve an amount of her notes in excess of what the wants of the currency demand, that leads to the existence of that redundant currency, which has existed in London ever since her establishment, and which has done more to nourish unwarranted speculation than all other causes put together.

2d, "That increased issues of money will cause the circulation to overflow, and will cause an equal amount of gold and silver (presumed to form part of the circulation) to find its way abroad, without augmenting the money-prices of commodities."

Had Dr Smith said, that the *tendency* of increased issues of money was, after a certain interval, to bring about an exportation of gold and silver, its operation being to lower interest, thus inducing capitalists either to send their money abroad for investment in foreign securities, or, retaining it at home, to seek employment for it by lending it more liberally than before, thus giving a stimulus to speculation, raising prices of commodities, and thereby to create an unfavourable balance of trade,—the proposition might at once have been accepted as true. But he holds that increased issues would neither lower interest nor raise prices; and it is, therefore, not easy to discover what is the process through which he supposed the overflow of gold was to be brought about. He says, "It will be sent abroad, to find that profitable employment which it cannot find at home." It would thus appear that he saw the increase in the quantity of money would tend to diminish the profit to be derived from the employment of it. How this could take place without reducing the rate of interest to be obtained for the loan of it, was worthy of explanation. But he had previously, led away by the false reasoning of Hume, been endeavouring to prove that an increase in the quantity of money could not affect interest, while he had laid it down as a principle that it could not raise prices. He was thus unable to explain how the increased issues

were to cause an export of gold, and so he seems to have thought that the best way to get out of the difficulty was to shirk it altogether.

The way in which increased issues of money do tend to bring about an export of gold is by reducing rate of interest; and this reduction operates doubly—first, by inducing capitalists to send abroad their money for investment in foreign securities; and second, by promotiug speculation, raising prices of goods in the country where the increased issues take place, and enabling foreigners to obtain advanced prices for the commodities they send to its markets, while the commodities sent from it to other countries obtain no advance of price,—the ultimate effect in each case being to cause an unfavourable balance of trade, for the adjustment of which an export of gold becomes necessary.

But in neither way does the "overflow" take place with the rapidity with which Dr Smith appears to have imagined that it would do so. In this country, for example, interest may fall to, and for a long time continue at, a rate far below what may be considered the natural, or average rate of interest, which I take to be, for securities of the highest class, a rate corresponding with the average return afforded by money invested in the national funds. So little is the inclination, or rather, so strong is the disinclination, of capitalists to send away their money for foreign investment, that interest in Scotland, where the security of property is quite equal to what it is in England, is generally one-half per cent. higher than it is on securities of equal class in the neighbourhood of London; while in Ireland, it is generally

as much above what it is in Scotland. And, indeed, if I mistake not, it has happened, on more than one occasion, that money has been lent in London, on the security of the bills of private firms, at a rate of interest actually lower than the deposit rate of interest allowed at the same time by banks in Scotland, each giving the security afforded by a responsible capital estimated at about ten millions sterling. When such, then, is the reluctance with which capitalists send their money from one part to another of their own country, it is not to be wondered at that the "overflow" of the currency by direct transfer of money for employment abroad, should operate very slowly.

Dr Smith says that any additional money poured into the channel of circulation will overflow. But (to follow out his style of illustration) the currency does not so much resemble a channel filled with water, so that anything additional thrown upon it will *at once* run over. It is more like a basin filled to the brim with something of a half liquid nature, which tends towards a level, but only slowly arrives at that state, so that anything additional thrown upon it serves for the time to destroy the level, and cause it to rise higher at some part, and there to overflow. But those to whom the fluid (or money) so overflowing belongs, being unwilling that it should overflow, arrest its issue and throw it back within the basin. The money (or fluid) thus suddenly returned, forces open a space for itself; and, in so doing, causes, as it were, a surge, which raises the level of the mass higher at some other place. There, again, it seeks to overflow; and there, again, its overflow is arrested—its

return to the general mass increasing the commotion, which thus continues like that on the surface of a boiling caldron; till, at last, some of the owners, tired of the unceasing efforts to find profitable employment for their money, allow it to overflow, by sending it, reluctantly, wherever they see a better chance of that employment being obtained for it, or till the struggle which has been carrying on, with the view of preventing this overthrow, that is, of finding employment for the money existing, has produced its natural effect in reducing interest, promoting speculation, raising prices of commodities, and thereby creating an unfavourable balance of trade, and leading to an export of gold for its adjustment.

But while the undoubted tendency of a redundant currency is to raise prices, and thereby to lead to an unfavourable balance of trade, that event is by no means an immediate consequence of such a state of the currency, which may continue for a very long time without leading to it.* So that the continuance of a favourable balance of trade, and of a favourable exchange, is not an evidence that the currency is in a sound state; while, on the other hand, the existence of an unfavourable balance of trade is equally little an evidence that it is not. In whatever state the currency of this country may be, a deficient harvest can rarely fail to cause an unfavourable exchange, and consequent export of gold; and, (as was observed by J. Horsely Palmer, Esq.,† in his evidence before the Lords' Committee in 1848), the same result is likely to follow any event, political or otherwise, which produces extensive want of

* *Supra*, pp. 87, 88. † Lords' Report, 1848, p. 466.

confidence among the mercantile community of the continent. Such a state of things causes an unusual demand for gold. London is the place where the demand can be most easily supplied, and presents the most favourable market for the sale of foreign securities, and for the sale or deposit of foreign produce. The price derived from the sale of the former, and the advance obtained in anticipation of the sale of the latter, afford equally the means of supplying the want of gold abroad, by a drain from the Bank of England, which no contraction of the circulation of the bank, and no reduction caused thereby in prices, would, for the time, be of any avail in checking.

The expression "redundant currency," is one which may suggest different ideas to different minds. To those who know the word "redundant," only as it is to be found in the pages of classical English writers, it will suggest the ideas of "superabundant" —"exuberant—"superfluous,"—as it is defined by Dr Samuel Johnson. But political economists have seen fit to use it in another sense altogether; and the idea which they express by it is one having reference in no degree at all to the actual state of the currency, and having reference only to the position of the country, whose currency is spoken of, as regards the balance of trade existing for the time between it and other countries. Thus, a drain of gold from one country to another cannot by possibility (excluding, of course, cases of insanity, or of such political or commercial excitement that mutual confidence among merchants is at an end) take place so long as there is an equal balance of trade or payments between the two countries; because the sending of gold from

one country to another is unavoidably accompanied by expense, so that a hundred ounces of gold sent from one country to another, cannot in the latter country yield, after deduction of expenses of conveyance, &c., an amount of gold equal to what was sent away; while, when the trade between two countries is balanced, a given quantity of gold in the one country, will always serve for the purchase of a bill on the other, which will give its holder the command, in that other country, of a quantity of gold exactly the same as was paid for the bill; but it is held by political economists, that "however a drain of gold may originate, the fact of its existence is, of itself, a conclusive proof that . . . *the currency is redundant;*"* that is, a drain of gold can proceed only from an unfavourable balance of trade or payment, and thus the existence of an unfavourable balance of trade affords evidence that "the currency is redundant;" and though it does not necessarily follow, I presume we may regard it as being held by them that the absence of a drain of gold, or the presence of a favourable exchange, which is implied therein, affords evidence, in like manner, that the currency is not redundant. But we know that a favourable exchange may co-exist with the most extreme speculative excitement, and with a consequently very high range of prices; while we know, also, that the existence of an unfavourable exchange, leading, as it necessarily does, to a drain of gold, may be accompanied by a contraction of the circulation, and general scarcity of money, which has lowered prices to an average of one-half of what they were during the

* M'Culloch's "Commercial Dictionary." Suppl. Banks, p. 6.

continuance of the favourable exchange. So that all that can be inferred from the assertion, (used according to the meaning in question), that "the currency is redundant," is—not that there is a superfluous amount of it floating about; not that prices are above their natural level; not that interest is unusually low, or speculation unusually active; but merely this—that the balance of trade is against the country whose currency is spoken of, and that a drain of gold is required for its adjustment.

I use the word "redundant" in its ordinary English meaning, and the exact application I make of it I will endeavour to explain, as follows:—

1*st*, In a country where the circulation is purely metallic, I apply the term "redundant" to the whole of that portion of the currency which is not daily circulating in the hands of the public, and which lies in shape of unemployed deposits in the safes of the banks. It will probably be answered that these presently superfluous coins form, to a certain extent, the reserves of the bankers, and that their possession is necessary to provide for the appearance of those seasons of alarm and panic which are to be found, more or less, in all countries; and during which the amount of currency, formerly superfluous, becomes insufficient to supply the wants of the community. This is no doubt true; but it is not less true that, till such period of alarm does make its appearance, such currency is "redundant," and—in the struggle which the owners of that money, if it be lying in the banks without interest being allowed upon it, or which the bankers, if it be lying with them at interest, will certainly make to turn it to

some account—inflicts on the country that possesses it all the evils of speculation, which, among every commercial people, are sure to be the successors of an unnaturally reduced rate of interest, and of the undue facility of borrowing, which equally result from an over-supply of the circulating medium; and it appears to me that nothing can shew more strongly the utter unsuitableness of a metallic currency for any commercial country, than the necessity which it seems thus to involve of keeping up, at all times, an amount of gold and silver money, to be of use only at distant intervals, and during the whole of the intermediate time to be not merely useless, but actually productive of serious injury.

2d, In a country situated, with regard to its currency system, as Great Britain is, the proper application of the term "redundant" is not so obvious; but I think the following definition will not be found very objectionable. The whole currency of the United Kingdom consists of—*1st*, Gold and silver circulating in the hands of the public; *2d*, The note circulation of the private, chartered, and joint-stock banks; *3d*, The note circulation of the Bank of England; and, *4th*, The deposits in the Bank of England, and the Bank of England notes held as reserves by the banks in London and elsewhere in their own safes. The first three form the circulation of the country, and the fact of their being absorbed in the circulation seems to indicate the absence of redundancy as regards them; and I am inclined, accordingly, to consider that the term "redundant" is applicable only to what I have put under the fourth head, or, perhaps, only to the still more limited

amount indicated by the unemployed Bank of England notes in the hands of the Bank of England, and of the private and joint-stock banks in that country; or, in other words, that the redundant currency of the United Kingdom is composed of the Bank of England notes issued, in payment of dividends due on the national debt, or in temporary advances to government, in excess of what the circulation can absorb, and which are, in consequence of the impossibility of getting them absorbed in the circulation, allowed by the recipients of the dividends, or by the parties into whose hands they may at last find their way, to remain in the safes of the private or joint-stock banks in England, or in the treasury of the Bank of England itself.

It will thus be observed that I do not consider the term "redundant" properly applicable to any part of the circulation of the country banks in England, or of the banks in Scotland and Ireland, because the notes issued by them are issued exclusively at the desire of those who need them, and whenever the quantity of notes so issued comes to be in excess of what the circulation requires, the superabundant quantity will at once return to the banks by which they were issued, either in shape of deposits, from their own customers, for the sake of interest, which it is here assumed they all allow, or from other banks, who will demand gold, or Exchequer Bills, or Bank of England notes, in payment of them. And, in like manner, were the Bank of England to issue her notes, not in paying dividends, or in making advances to government, but exclusively in the discounting of bills, and were she, like the other banks of issue

throughout the kingdom, to allow interest on deposits, then her issues could equally little become redundant; or even were she to allow on deposits a rate of interest equal, or nearly equal, to her lending rate, without any change being made in her mode of issuing, I believe it would equally well secure the country against the evils of a redundant currency, which all result from the circumstance that a given amount of Bank of England notes (or, what is tantamount thereto, the privilege of demanding at pleasure a given amount of them) forms, to certain individuals, all that they have got to represent a certain amount of real capital, and remains utterly unproductive to them of any return—the dissatisfaction they feel at having it so unproductively locked up, and the struggle to find even moderately profitable employment for it, always leading to reduced rates of interest and extensive speculation; and it being, further, a moral impossibility that the bank-notes so held by them can find employment except by driving out of circulation (1.) other Bank of England notes, which their possessors, in turn, will find the same difficulty in finding employment for, or (2.) the notes of private or joint-stock banks circulating throughout the country.

With reference to these superfluous notes, it will no doubt be said, as was formerly supposed to have been said of the superfluous coins under a metallic circulation, that the time is coming, when, from the failure of confidence, they will not only all be required, but even altogether be insufficient to supply the wants of the community. And this is true; but it only shews the utter absurdity of the principle,

that the amount of circulating medium should be fixed irrespectively of the necessity existing for it, and the fearful folly which attaches to the relinquishment by government of the duty of providing a proper circulating medium, and to the entrusting the discharge of that duty to private companies; who, so long as human beings continue to be constituted as they are, will accept, as a privilege to be exercised only as it can most conduce to their pecuniary gain, that which ought to be regarded as a solemn duty, to be exercised only for the benefit of the nation at large.

Throughout the above observations, I have proceeded on the assumption that a low rate of interest and unusual facility in borrowing money have a tendency to promote speculation; but that they have such tendency has been called in question, and that, too, by Mr Tooke,—an authority whose opinion on any point connected with the currency must be received with the highest respect.

Mr Tooke regards it as a vulgar error, "that a facility of borrowing at a low rate of interest, not only confers the power of purchasing, but affords the inducement, applies the *stimulus*, to speculation in commodities. If, by facility of borrowing, be meant a laxity of regard to security for repayment on the part of the lender, there is every probability that money so borrowed will be hazardously, if not recklessly, employed; and whether in the purchase of shares or of foreign securities, or of merchandise, or in any other mode of adventure or enterprise, or in mere personal expenditure, is a matter of chance, depending on the disposition and views of the bor-

rower. Such borrowers are not *stimulated* to purchase commodities, merely because they can borrow on low terms; they are but too happy if they can borrow at all. But to suppose that persons entitled to credit are likely to be induced—*stimulated* is the favourite term—by the mere circumstance of a low rate of interest, to enter into speculations in commodities, (using the term speculation in its obnoxious sense,) argues a want of knowledge of the motives which lead to such speculations. These are seldom, if ever, entered into with borrowed capital, except with a view to so great an advance in price, and to be realised within so moderate a space of time, as to render the rate of interest or discount a matter of comparatively trifling consideration;" * and then he quotes the history of the tea trade in 1839-1840, as an evidence that speculation may be carried to a great extent even during a period of general depression and scarcity of money.

In so far as experience throws light on the subject, it certainly goes to confirm the popular notion, and to refute that of Mr Tooke. It is quite true that an extreme scarcity, or the anticipation of an extreme scarcity, of any commodity in extensive use will insure a certain amount of speculative enterprise being turned upon it, and will insure a certain advance in price, even when rate of interest is high, confidence limited, and money, accordingly, not abundant. And so we find that in 1839-1840, such being then the general state of the money market, a considerable amount of speculation prevailed in tea, and continued till prices of that article had risen

* "An Inquiry into the Currency Principle." By Thomas Tooke, Esq. London, 1844, pp. 81, 82.

about one hundred per cent. above the level at which they stood at the time when intelligence reached this country of the stoppage that had been put to the trade of the British with China. But it never was held, even by those who ascribed the greatest influence in prices to the state of the currency, that an advance in the price, consequent on a falling off in the supply of any article, was absolutely incompatible with the temporary existence of a tightness in the money market; and all, in so far as I am aware, that the holders of these views ever did maintain was this—that, other circumstances being the same, a low rate of interest, and great facility in borrowing, are more apt to engender a spirit of speculation, and to carry the advance in price of the article speculated in to a height above what the actual change in state of the relation of supply to demand would seem to warrant, than a high rate of interest and a greater difficulty in borrowing. And thus it appears to me that the proper answer to Mr Tooke's inference from the fact of speculation having existed in 1839 and 1840, money being then scarce, is the simple inquiry, "What would have been the character of the speculation had the circumstances that prompted it occurred, not in 1839 and 1840, when the rate of discount on the highest class of commercial bills ranged from six and a-half down to four and three-quarters per cent., but in 1844 and 1845, when paper of the same class was readily negotiable at two or even one and a-half per cent.?"—and I think no one, who looks with an unprejudiced mind at the respective states of public feeling during these two periods, can hesitate

to come to the conclusion that, had the latter period been the one that received intelligence of the expulsion of the British merchants from Canton, and of their trade with the Chinese having been put a stop to, we should have witnessed a scene of excitement rivalled, perhaps, by that which then prevailed on the Railway Stock Exchange, but beside which the speculation of 1839-1840 was tame and lifeless.

There are, I can see, two cases under which the fact of interest being high or low may have little effect in promoting speculation, and be little thought of by those entering upon it: the one is, where a few weeks, or, at most, a very few months, are likely to determine the result of the transaction; and the other, where it is entered into, not with a view to profit, but with a view to what is called, in common parlance, "raising the wind." In both of these cases, the difference in rate of interest, at which the money may be borrowed for carrying out the speculation, is little regarded; because, in the one, it forms a small item, a difference of one or even two per cent. per annum being equal to no more than one-quarter or one-half per cent. when the transaction is embraced within a period of three months; and in the other, the profit that may arise is probably to the speculator a matter of very secondary importance, the chief object being to get money for the discharge of his current liabilities. But I can confidently assert, as the result of pretty extensive observation, that merchants of *intelligence,* engaged in the supplying of foreign countries with British goods, and in the importing of foreign commodities for supplying our home consumption, do, in a very great degree, regu-

late the extent of their transactions by the state and prospects of the money market. If the exchanges are favourable, and the nature of accounts from foreign countries such as to afford fair grounds for the expectation that they will continue so, and the prospects of the harvest are such as to cause little apprehension of any unusually extensive importation of grain being required, so as to turn the exchanges against us, then they proceed with confidence, and enlarge their shipments; while, if the prospects of the money market are of a different character, they limit their operations. Whether such business be of the kind to which Mr Tooke would apply the term "speculation, in its obnoxious sense," I do not know; but it certainly comes within the meaning of those who hold that "abundance of money promotes speculation;" and it is the increase of such business that generally, by gradual steps, raises the prices in this country of articles suited for exportation, and of course, also, more or less, of all other articles, as it is evident that anything which causes an unusual demand for goods of one class must tend to attract workmen from other departments, and lessen the production in them. When favourable accounts, as regards any particular description of goods, are received from a foreign market, if there be at the time what is commonly designated "scarcity of money," then comparatively few will seek to avail themselves of the favourable prospects by shipping to that market; while, if money be abundant, crowds will rush to supply its wants, and through their competition raise wages of labour and prices of materials,—the reason being that, in the one case, parties disposed to ship find it impossible

to obtain the requisite advances from their bankers, while, in the other case, they have no such difficulty to encounter.

Mr Tooke observes that speculations "are seldom if ever entered into with borrowed capital, except with a view to so great an advance of price, and to be realised within so moderate a space of time, as to render the rate of interest or discount a matter of comparatively trifling consideration;" and, with all deference, I beg to call in question the soundness of the opinion. If a merchant goes into the market, and purchases a quantity of goods for shipment to a foreign country, in the hope of making profit thereby, the transaction is always called a "speculation;" and such being the meaning of the word, I can state, with full confidence, that speculations to an enormous amount are every year gone into on borrowed capital, extending over such a lengthened period as to make the rate of interest a very important element in judging as to probable gain. As regards speculations in railway stocks, or investments in articles situated as tea was in 1839, where some change in circumstances is expected to cause a great immediate advance in price, it may be quite true that the rate of interest forms a very secondary consideration. But to say that speculations, extending over a period of twelve or eighteen months, are seldom, if ever, entered into with borrowed capital, is erroneous,—the fact being, that the immensely preponderating mass of all the goods sent from this country to the markets of North and South America, India, and China, are sent by means of borrowed capital, exactly as the great mass of all transactions, banking and mercan-

tile, constantly being carried on in the United Kingdom, are conducted.

The banks of Scotland carry on nearly three-fifths of their operations on borrowed capital; the joint-stock banks of London carry on more than nine-tenths of their operations on borrowed capital; and I think I am quite justified in adding, that a proportion nearly as large of all the mercantile operations of this country is carried on upon borrowed capital also. The capital of all the Scotch banks, collectively, amounts to about twelve millions; but their deposits (or the amount they borrow from the public) amount to about two and a-half times as much, or about thirty millions. The capital of the six London joint-stock banks collectively amounts (in September, 1855) to about three millions, but their deposits amount to about thirty millions; and the capital and deposits together, they employ, at least to as great extent as they consider prudent, in lending to merchants, who, generally speaking, do an extent of business bearing a pretty similar proportion to their respective capitals, to that existing between the business of the banks and their capital.

As many may be ignorant of the fact, it may be well for me to state that the foreign trade of the United Kingdom is chiefly carried on through agency-houses, at home and abroad. Thus, a company of British merchants established, say in Valparaiso, or Rio Janeiro, or Manilla, will have agents, (commonly called *drummers*,) in the principal manufacturing towns in this country, in which are made the descriptions of goods suited for the respective markets, and an agent in London, (commonly called

a *drawing-post*); the duties of the former being to procure consignments from the manufacturers and shipping merchants; and of the latter to make advances on the consignments so procured, to receive the returns sent back for them, and generally to promote the business and manage the financial affairs, in England, of the foreign house. When a consignment is made to the foreign house, the provincial agent transmits invoice and bill of lading for the consignment to the London agent, with whom he opens a credit in favour of the shipper, to the amount that may have been agreed upon. This is generally two-thirds of the invoice amount, so that the proportion borne by the advance to the actual cost of the goods depends entirely on the prices at which the invoice is made out; or, in commercial language, on the degree in which the invoice is "salted," and this again depends entirely on the market to which the goods may be sent, and on the extent of competition among the agency-houses in procuring consignments. Thus, in the Calcutta market, where the number of agency-houses is great, and the competition for business strong, the invoices are commonly *salted* to extent of 40 or 50 per cent., so that an advance of two-thirds of invoice amount will give the shipper from 94 to 100 per cent. on cost. In other markets, where there is less opposition, "salting" may be restricted to 10 or 20 per cent., in which case the advance of two-thirds would yield the shipper only about 75 or 80 per cent. on his outlay. But taking one market with another, I think I am warranted in stating, that of all the goods sent from Great Britain and Ireland to the markets of

America, or the East and West Indies, at least nine-tenths represent borrowed capital.

Now, such being the state of matters, it becomes evident that in entering upon transactions with foreign markets, the rate of interest is by no means the "trifling consideration" that Mr Tooke seems to imagine; and when I add that the way in which advances are generally made is by the acceptance of the London house, which the shipper is bound to renew for a fixed period of, it may be, twelve, or fifteen, or eighteen months, or perhaps till the returns for the goods shipped are got back, it becomes also evident that the general prospects of the money market, involving, as that does, the question whether the drawers of the bills may be able to renew them during the agreed upon period, must weigh very seriously in the decision of the London agency-house whether they will make advances, or will not.

As regards the shipper, suppose he makes a consignment at a cost of £1000, say to Manilla, and that he obtains upon it an advance of £900, leaving £100 as amount of his capital invested. Sales are generally made in that market (as well as in most others to which British goods are sent) at a pretty long credit, so that returns can hardly be got back in less than fifteen months, and are not likely, on an average, to be got back in less than twenty or twenty-four months. Take it, however, at eighteen months, then a difference of one or one and a-half per cent. on the rate of discount at which he may be able to get his bills cashed, will make a very perceptible difference on the result of his speculation. Say that formerly the current rate of discount was

four and a-half per cent., but that it has now fallen to three per cent., making a difference of one and a-half per cent. per annum; then the case will stand thus:— £900 at one-half per cent. per annum is £13, 10s., but for eighteen months it will amount to half as much more, or £20, 5s., and thus £20, 5s. is the difference to this supposed shipper, between getting money for his bills at three per cent., and being obliged to pay four and a-half per cent. for it; and though £20, 5s. may appear a very small sum when compared with £1000, the total amount of the transaction, it is a pretty large sum when compared with £100, the whole capital he had invested in it. And, accordingly, it is a fact known to every one at all acquainted with the foreign business of this country, that a low rate of discount frequently serves to afford strong inducement to parties to purchase goods and ship them under advances, as it also forms an inducement to other parties to employ in speculation funds which, but for the low rate of interest obtainable, they would have preferred to lend to others.

And then, as regards the London agency-house, no one can reasonably doubt that any intelligent merchant, before agreeing to put his name to an amount of bills, which he knows he is no more capable of paying off, if suddenly called upon (through failure of constituents, or other cause) to do so, than the Bank of England, or the Bank of Scotland, or any other bank, is capable of paying their respective notes and deposits if called upon to do so, will take into consideration what are the prospects of the money market, and how far there is anything in them likely to interfere with the ability of the

parties to whom he grants his acceptances to make due provision for them. If he is satisfied that there is no ground for anticipating the occurrence of an adverse exchange, and a consequent export of gold, to make *money* scarce—that is, by creating panic and destroying confidence—then he will be prepared to extend his advances and to encourage shipments. The manufacturers with whom he deals will be induced to increase their production; they will buy more raw materials, and they will engage additional workmen. But they are not solitary; others are also disposed to increase the production of the goods they make, and to engage additional workmen; and the increased demand for raw material thus arising is very likely to raise the price of it, as is also the increased demand for workmen, to cause an advance in the rate of wages. While, on the other hand, should the prospects of the money market appear unfavourable, the London agent will discourage shipments, by declining to grant advances upon them. Other agency-houses will do the same; and so manufacturers, being deprived of the opportunity of borrowing money to facilitate the shipment of their goods when made, will cease to produce them. The demand for raw materials will diminish, and prices will fall. The demand for labour will diminish, and wages will fall likewise.

It may be said by some one unacquainted with business that the borrowers above alluded to are of the class referred to by Mr Tooke, as not stimulated to purchase commodities speculatively, merely because they can borrow on "low terms," but as being "too happy if they can borrow at all." But, if so, the remark arises from incorrect ideas as to the state

of trade in this country, which is now such that competition has, in general, reduced profits so low that all merchants, with exception of a few millionaires, are compelled to extend their business far beyond what their own means would admit of, as the only way of obtaining a fair return on the capital employed; exactly as it is with banks, who endeavour to attract as great an amount of deposits as possible, for the sake of the difference of one or two per cent. between the interest they allow to depositors, and the interest they charge to those they lend the money to. And then, as regards the agency-houses mentioned above, it may appear to some that houses so trading on borrowed capital must be also of the inferior class referred to by Mr Tooke, which is likewise a mistake; the houses capable of carrying on such a business being generally houses of capital,—the very beau-ideal of a "merchant banker," as such houses are termed, being this—that no part of his capital should at any time be advanced in his business, but that it should at all times be held in readily-convertible securities, on which he can fall back, should unforeseen circumstances occur to render that necessary. Exactly as a bank, when it has attained that position in public confidence, as indicated by the amount of its deposits, which all banks seek to attain, trades solely on borrowed money, or deposits, leaving its capital as a reserve to meet contingencies.

Looking, then, at the extent to which, in this country, business of almost every class is carried on upon borrowed capital, and knowing to how great an extent the facility of borrowing, and the rate of

interest at which money can be borrowed, depends on the state of the money market, it would seem to be very evident that abundance of money must tend to the increase of transactions, and to the rise in prices which increased demand generally brings about, in virtue both of the greater profit likely to be derived from a speculation carried on with money costing (or, if it be not borrowed, worth) only a low rate of interest, compared with what the profit would be were a high rate of interest payable for it; and of the greater confidence which merchants have in entering upon transactions likely to extend over a considerable space of time, when the state and prospects of the money market are such as to warrant the expectation that facility of borrowing will continue.

Let it be specially borne in mind, that it is really the state of the *money market* which determines the course of events under the circumstances above alluded to; and not at all the extent of capital in the country. The increase of transactions, in the one case, originates in the abundance of *money;* and the decrease in the other proceeds from the scarcity of it. It is, however, asserted by some that panics in the money market proceed, not from scarcity of *money*, but from scarcity of *capital;* and one of the witnesses examined before the Secret Committee of the House of Lords, on the commercial distress of 1847, gave it as his opinion that "monetary derangement, arising from variations in the amount of our circulation, will never go to any extent in paralysing the trade of the country, or stopping the productive power of our manufacturers. *It is want*

of capital which alone produces these serious effects:" and he accordingly ascribes the whole distress of the trading-classes of Great Britain in the year 1847, and, it is presumed, in similar former periods, not to want of *money*, but to want of *capital*. But, if want of *capital* was the cause of the distress of 1847, how was it that no sooner did the Treasury letter of 25th October in that year, authorising the Bank of England to increase their issues, *if necessary*, make its appearance, than, in the words of different witnesses examined before that committee, "all alarm ceased;" "the cause of the panic [inability to obtain money (or bank-notes) on the security of silver or any other commodity] was removed;" "confidence was restored," and no increase of issues was necessary? It is certain that the Treasury letter added nothing to the capital of the country; and the fact of its having removed the panic by merely conveying the intelligence that parties *possessing capital* should have the means of obtaining money, if they needed it, seems to afford clear evidence that scarcity of *money*, and not scarcity of *capital*, was the cause of the previously existing distress. The same observations apply with equal force to the similar events of former years, when, as in 1793, 1811, and 1826, the advance of Exchequer Bills by government, affording to capitalists, and to such only, the means of obtaining money, served at once to allay the panic.

The opinion of Mr Tooke, "that a facility of borrowing at a low rate of interest" has no tendency to encourage speculation, or to lead to a rise of prices, does not, on examination, appear to possess

that soundness which generally distinguishes his views on the currency question; and, with all respect, I feel inclined to ascribe the expression of such opinion less to his serious conviction, than to the operation of that propensity which, existing more or less in all minds, induces to the bending of facts to suit theory.

Mr Tooke saw, and he saw truly, that no issues which the private or joint-stock banks throughout Great Britain could possibly make, could have any effect whatever in increasing the circulation, and that if they could not possibly cause any increase in the circulation, then it necessarily followed that speculation could not be excited by such increase; but the fact seems to have escaped his observation, that the private and joint-stock banks, on the one hand, and the Bank of England, on the other, occupy very different positions, and that though the circulation—that is, the quantity of notes actually passing from hand to hand, as instruments of exchange—does not admit of being increased, the Bank of England has the power, and has the exercise of that power forced upon it, of increasing its issues, irrespectively altogether of any necessity existing in the country for additional supplies of circulating medium.

Thus, let us suppose that—by some fortuitous concourse of events, or, perhaps, from common sense having been allowed for a little to take the helm of the currency—the circulation of the country were to be, some day, exactly proportioned to the wants of the community; that there was no redundant currency; that there were no deposits in the Bank of England,

consisting of pieces of paper which some one had got in exchange for real capital, these bits of paper being called money, but being unfitted for discharging the functions of money, in virtue of the facts, (1.) that the circulation when they were issued was already sufficient; and (2.) that the circulation being sufficient, they cannot come to be used as money, unless by displacing and rendering redundant some of that money which is presumed to form a part of the already sufficient currency; that the notes for which the public was paying interest were neither more nor less in amount than was exactly wanted for carrying on the business of the country; and that, no change having, in the meantime, taken place in the business, or in the number or extent of the commercial transactions of the community, the Bank of England were to issue notes to extent of £5,000,000 in payment of government dividends. Would not this make a very material difference on the state of the currency? I cannot doubt but that it would—and on the state of the money market, too; and that effects would follow quite unlike the effects that could be produced by any procedure on the part of private or joint-stock banks. It is a very common observation (and, according to our present currency system, it is quite a correct one, though, I conceive, it would not be so under a rational system), that "money is a commodity," and this commodity having, by the pouring of £5,000,000 into a "channel of circulation" already full, been rendered excessively abundant, rate of interest paid for the loan of it would immediately fall. The increase in its

quantity would in no degree alter its value with respect to commodities, because all the parties by whom it has been received were quite aware beforehand that it was coming, and, accordingly, there is no extra demand for commodities caused by it. Probably a considerable part of it may represent provisions, clothing, &c., already consumed. So far as it does, then it immediately passes from the hands of its recipients to the hands of those to whom they may have been indebted; and so far as it does not, then it will, to a great extent, be exchanged for commodities, and the end will be that, in a few days, the whole five millions will have passed into the safes of different bankers, in payment of bills held by them, or in shape of deposits.

The bankers, finding such large amounts of money lying unemployed in their cash boxes, will be anxious to turn it to some account. As the only means of doing that, they will offer to lend it; and as they cannot lend it safely except for short periods, they will most probably seek to do so by discounting bills, at rates under those previously current; and so rates of discount will fall, and the money market will be said, quite properly, to be "full of money." This fall in the rate of discount will very likely have the effect of attracting to the bankers, who are offering money at the low rates, an unusually large share of the discount business; and many who, but for it, would have taken their bills to the Bank of England, will now cash them in the open market. Few additional notes will thus, for a time, be taken from the Bank of England; but, in the meantime, bills falling due there will have been hourly retiring,

so that to some, or it may be to a considerable extent, the five millions thus scattered abroad, may be balanced by the diminished amount of issues, through means of the bank's discount department. But we may take it for certain that it will not be so altogether, as the bankers who have got these notes deposited with them must keep a certain portion of them to meet contingencies.

And then, as regards the owners of the notes so deposited, their position is an unsatisfactory one. They desire to have them lent out at a fair rate of interest, but the excess of money (or notes) has depressed the rate of interest in an unnatural degree, so as to deprive them of that opportunity, and they are thus very probably tempted, in the hope of bettering their position, to embark their money in some of those speculations which, in every period of low interest, are found pressing upon the public notice. Prices, of whatever it may be that the speculation has been directed to, begin to rise a little; the attention of others is attracted; and, perhaps without any good grounds for an advance, prices do advance, then public feeling becomes excited, and the speculation goes on, prices rising higher and higher, till a panic takes place, and the speculation falls to the ground.

This seems to me to be the result, and the natural result, of the supposed issues of the Bank of England beyond what the business of the country really requires; and it must be manifest to every one that it is something quite different from anything that could possibly happen with other banks of issue, as, with the whole of them, any excess of issues would

at once be returned upon them, so as to deprive them of the possibility of making profit by them; while, on the other hand, the Bank of England does make profit on every note that lies in her own treasury at the credit of depositors, or which lies idle in the safes of bankers throughout England, beyond the amount of her notes which is represented by bullion in her vaults.

It is true that the holders of this redundant currency may get gold for it from the Bank of England, if they want it. But in what way will that improve their position? In no way whatever. If, in their difficulty, they call in the aid of a political economist, he will tell them that they may make profit by sending it abroad. But if, before acting on the information so tendered, they take the advice of some one guided by knowledge, and not by theory, he will tell them that if they want to get delivery of a certain quantity of gold abroad, their prudent plan is to buy a bill, by which means—the exchange being either at par, or in favour of this country—they will save all the expense and trouble of sending away gold. They buy bills, accordingly, and they get their money invested in the foreign lands to which respectively they have remitted it. But where is the gold? Just where it was before—in the vaults of the Bank of England; and the currency is not less redundant than it was before this transfer of capital took place. The time will come, however, when the gold will follow, but it has not come yet. I have said, the exchange being either at par, or in favour of this country, which, it may be taken for granted, is the case during this period of excessive abundance of money; because, as a gene-

ral rule, it will be found that no sooner do the exchanges become unfavourable than alarm is generated through the diminution in the stock of gold in the Bank of England, resulting from the exports of that metal required to adjust the balance, and so money becomes scarce, and interest high,—thus removing the inducement to holders of money to transfer their capital from this to other countries.

It will, accordingly, be observed that the investment of British capital in foreign securities may be carried to any extent without, at the time, having the least effect on the money market, or in reducing the excessive abundance of money, or in diminishing the stock of bullion held by the Bank of England. It diminishes the capital of this country, or at all events the capital available for commercial purposes; but, as I have just said, it does not, for the time at least, make either money or gold less abundant. It is pretty sure, however, to affect both by and by; and the time when it does so is when returns come to be required for the foreign importations which, but for the foresaid investment in foreign securities, would have been afforded by the goods whose proceeds yielded in foreign countries the funds by which these securities were paid for. When this takes place, then gold flows out, and money becomes scarce, and panic follows; but gold never leaves this country to any extent when the currency is redundant—that is, when the exchanges are favourable, confidence high, and money plentiful; the times when gold does flow out being only those when the exchanges are unfavourable, confidence low, and money scarce. Nothing can shew more strikingly than

this does the consummate folly of that policy which, professing to regard the retention of gold in this country as of paramount importance, proposes, as the most effectual means of attaining that object, that the issues of paper money should "be increased with every fall in the value of gold; or, which is the same thing in its effects, with every rise in the price of goods;"* that paper should be poured out when speculation is abroad, and that when these over-issues have produced their natural result in turning the balance of trade against the country, and causing gold to be exported for its adjustment, they should be suddenly curtailed, with the view of bringing it back; or, in every-day language, that the stable doors should be left open to attract the notice of depredators, and be locked only when the steed has been stolen.

But political economists have urged with so much pertinacity that when the currency grows redundant it will immediately become profitable to send gold abroad, that, it may be, some one will suppose that they have really among their mysteries some yet unrevealed plan by which profit may be realised from that operation. And it may be so; I confess, however, I have little faith in it; and I am afraid that when they shall condescend to make it known to the vulgar, it will prove to be—like Mr Ricardo's notable discovery, through means of which one pipe of wine of given quality may be, at same time and place, as valuable as two of the same quality—a mere play upon words, and of no practical utility.†

* "On the Principles of Political Economy and Taxation." By David Ricardo, Esq. London, 1817, p. 503.

† CONUNDRUM.—"When is one pipe of wine as valuable as two

From what has now been said, I think we are warranted in coming to the conclusion that Adam Smith was right when he maintained that, in a country situated as Great Britain is, increased issues of money cannot be absorbed in the circulation, and that, accordingly, banks of issue have no power of increasing their circulation beyond what the necessities of the country demand; but that he was wrong when he asserted that increased issues would cause an export of gold, without reducing interest of money, or raising prices of commodities, though he would have been right had he asserted that increased issues would have a tendency to lead to an export of gold, in virtue of their effect in depressing interest of money, and thereby leading to speculation, and causing an advance of general prices; while we further observe, that an unfavourable balance of trade is by no means an immediate result of such increased issues, and that an unfavourable balance of trade is equally little an evidence of unsoundness in the state of the currency.

Fourth. It has been, and still is, extensively supposed that an expansion of the currency of a country promotes its prosperity; but no one who reads the foregoing sketch attentively can fail to see that the "prosperity" which results from such source is utterly delusive. As, however, the delusion does prevail, and as, indeed, it is often difficult to get people to feel that the prosperity which manifests

pipes?" When it *brings* as much as the two? Nothing of the sort; but, according to Mr Ricardo, when you *pay* as much for the one as your neighbour paid for the two.—See Mr Ricardo's "Principles of Political Economy and Taxation," page 146.

itself is not real, it may be well to endeavour still further to illustrate the point. Let us suppose, then, that a merchant takes, on 1st January, an inventory of his stock, consisting of a general assortment of goods, and finds that, at the market prices of the day, it is worth £10,000. On 31st December following, he repeats the process, and finds that the stock then on hand forms an exact counterpart of the stock he held at beginning of the year; but, on putting a valution on it, he finds, further, that, at the market prices of the day, it is worth £11,000, and (his other assets and his debts being also exactly the same as they were at the former date) he immediately comes to the satisfactory conclusion that, in addition to the profit he has realised during the year, in the ordinary course of his business, he has made an addition to his capital of £1000, from the increased value acquired by his stock. He will now, in all probability, be induced to increase his expenditure, and adopt a style of living which it would not enter into his mind to do if he saw, what is really the case, that in so far as relates to the supposed gain of £1000, its existence is almost entirely imaginary; that were he going into the market with the £11,000 which he might acquire from the sale of his stock, he could not purchase any more with it than he could have done with £10,000 a year sooner; and that, accordingly, in so far as the rise in the value of his stock is concerned, he is not a bit richer at the end of the year then he was at the beginning of it. The price, or money value of it has risen; but its intrinsic and exchange value (estimated, not in money, but in goods) continues the same, as the cause

which has produced such a satisfactory effect on his property, has equally (or nearly so) affected the value of all other commodities, so that, if he be a philanthropist, he will have the satisfaction of knowing that his good fortune is shared by almost every one of his neighbours, who, like himself, has been for some time a holder of goods of any description; for, though the prices of some articles may not have risen in the same proportion as those of others, we may rest assured that the increased abundance of money has affected them too; and that if not higher than they were before, they are at least higher than but for this increase they would have been.

It is true, that if he bought his stock at a long credit, he may have made an actual gain upon it. Thus, suppose that he bought it six months before, payable in six months after; and suppose, further, that the price of the goods so bought has advanced five per cent. during that period, then that difference of five per cent. will be so much clear gain to him. The value of the goods, in exchange for other goods, is the same as it was; but he pays for them in money, whose purchasing power is five per cent. less than that of the money which circulated at the time when he made his purchase. But the gain thus accruing to him is loss to the party from whom he made the purchase, though, in all probability, the latter may not be aware of the fact. Possibly, indeed, the latter may be quite well pleased with the transaction, and continue undisturbed, in the idea that the profit of five per cent. above original cost, (at which profit we shall suppose he sold them,) has actually been realised when he

gets payment from the party to whom he had sold them six months before, when, in reality, the whole of that profit of five per cent. is no more than sufficient to cover the loss he has sustained from change in value of the money in which he has got payment for them, compared with that which was current when he made the sale.

It may be, however, that in place of waiting for payment till expiry of the six months' credit, he got immediate settlement in a bill, which he at once cashed with his banker. If so, he has avoided the loss. But he has only shifted it to other shoulders, and the loss now falls on his banker, who, having advanced, in the discount of the bill, money possessing a given purchasing power, gets payment of it in six months after, in money possessing a purchasing power less by five per cent. than that which he had advanced; so that the loss sustained by him upon the transaction is exactly equal to the profit presumed to have been made by the purchaser of the goods, through the increased value of five per cent. acquired by them during the six months he has held them.

An alteration in the currency of a country may raise prices, or it may lower them, but it can never add to its real wealth. All that it can do is to take from one, and to give to another. But the reality of this is not, always, clearly perceived,—the reason being, that the rise in the "value" or price of goods strikes the senses at once, while the diminished purchasing power of money is less apparent. The merchant who sees his goods daily growing more and more valuable, (that is, in money,) has no doubt

that he is becoming rich thereby,—overlooking the fact that almost every thing else is rising equally. He is, therefore, warm in his praises of an expanding currency; while the moneyed capitalists, whose loss forms an exact counterpart of the merchant's gain, are apt to lose sight of their loss, and to imagine that the general rise of prices is a real evidence of national prosperity. But the true state of matters is this, that in so far as the prosperity which accompanies any change in the currency is real, it is the result neither of an expanded, nor even of an expanding currency, but simply of a *sufficient currency;* the prosperity that flows from an expanding currency, as such, is merely the enriching of one class at the expense of another.

The above conclusions, of a theoretical character, may all, I think, be fairly deduced from the sketch previously given, which seems also to warrant the following conclusion of a practical character, viz.:—

That all variations in the amount of the currency —that is, not absolute, but relative—are injurious to any community among whom they may occur; and that, in place of having a currency at one time so excessive in amount as to preclude the possibility of its being absorbed in the circulation, and at another time so insufficient that capitalists—*i.e.*, parties with undoubted security to offer—are prevented, not by scarcity of capital, but by scarcity of the "instrument of exchange," from procuring the money or circulating medium necessary to enable them to conduct their legitimate operations, it would be better to have a currency which should expand and

contract in exact accordance with the necessities of trade:—a proposition such, it appears to me, as few will be disposed to question the soundness of; and so, without comment, I will now proceed to inquire in how far the system of currency, heretofore or at present existing in Great Britain, answers this description; that is, how far it can be said to contract and expand as the necessities of business require; and whether, on the contrary, the commercial history of our country does not exhibit a currency which expands when confidence is high, and thus fosters speculation, and which contracts when confidence is low, and thus aggravates panic.

CHAPTER III.

BRITISH CURRENCY SYSTEMS.

So long as the trade of any country is altogether internal, or, while partly foreign, is limited to a simple barter of a certain quantity of its products for an equivalent amount of the products of the countries with which it deals, the regulation of its currency is a matter calling for the exercise of little ingenuity. And this seems to me to furnish a satisfactory answer to the inquiry of Mr Porter—"Why this, the richest country in the world, should be unable to effect that simplicity, in regard to its currency, which is found to be of easy attainment by the poorest states?"*—as well as sufficiently to account for the fact, that till near the end of the eighteenth century the United Kingdom suffered comparatively little from those monetary convulsions, to whose ravages its mercantile community has, since then, been periodically subjected.

The fact is, it is just because other countries are comparatively poor and unenergetic that the currencies prevailing among them are found to work satisfactorily; and it may with confidence be asserted, that the adoption, by Britain or America, of

* "Progress of the Nation," vol. ii., sec. iii., chap. 12.

the simple metallic currency found to answer so well among people of less commercial activity, would be found quite as incompatible with the continuous prosperity of these nations, as the more complicated (though equally uningenious) systems at present prevailing among them. As remarked in the foregoing chapter, if there were no credit given there would be no monetary convulsions; and the precise reasons why monetary convulsions occur with greater intensity and with greater frequency among the British and the Americans, are these two:—(1.) That among them the practice of trading upon borrowed capital prevails to a greater extent than among any other people, and that a larger proportion of the capital of the country is thus constantly held by others than its real owners, subject to repayment in money at a certain date, so that a rise in the value of money increases the debt payable by them, while it diminishes the value of the commodities out of the proceeds of which its payment has to be made, and consequently their ability to make the payment,—thus causing contractions of the currency to operate more injuriously on the trading classes, and also more extensively: and (2.) that from the generally speculative character of the Americans, and from the fact that Britain has now come to be, as it were, the great bank and storehouse for half the world, the two countries in question are much more exposed than any others to variations in the relative amounts of their imports and exports, or to having the exchanges thrown temporarily against them. When that takes place, then the whole series of evils begins:—an export of

gold is required to adjust the unfavourable balance; then there is a contraction of the currency; then there is alarm, and then panic, and then prices fall, and there is bankruptcy, and wide-spread misery:—the accuracy of which observation will, I hope, be made apparent in course of the following sketch of the commercial history of Great Britain, and of its currency systems.

Till near the end of the seventeenth century, the currency of Great Britain and Ireland was altogether metallic. But in 1694, the Bank of England,—an institution projected and brought into operation by William Paterson, a native of Trailflatt, in Dumfriesshire,—and in 1695, the Bank of Scotland, by an Englishman were established, to each of them the privilege being accorded of issuing that description of paper-money known as bank-notes.

The original capital of the Bank of England was £1,200,000, now increased to £14,000,000. At its institution, it held no exclusive privileges; but the renewed charter, granted in 1708, prohibited any other bank, having more than six partners, from issuing notes in any part of that country,—a prohibition which has only recently been withdrawn, limited to within 65 miles of London and which, while it continued, was a source of enormous loss to the English people, in preventing the establishment of banks with an extensive proprietary, and in causing the substitution for such of banks of limited means, the numerous failures of which have shewn clearly the impolicy of that prohibition, especially when contrasted with the solid character of the banking establishments which sprung up in Scotland in the entire absence of legislative interference.

Down till 1759, the Bank of England issued no notes for smaller amounts than £20; but in that year the issue was begun of notes for £15 and £10. From 1772, till 1797, the issue of notes for sums less than £5 was prohibited by law. In 1797, the prohibition was withdrawn, and so continued till 1829, when it again came into operation, and since when the issue of notes for sums less than £5 has been unknown in England, though practised with much advantage in Scotland and Ireland.

The original capital of the Bank of Scotland was £100,000, now increased to £1,000,000. Its original charter conferred upon it for twenty-one years the exclusive privilege of issuing bank-notes in that country,—a privilege, however, which, fortunately for the people of Scotland, was never renewed; and the freedom of banking, thus existing, had the effect, immediately on the expiry of the twenty-one years to which it extended, and during which that was the only bank in Scotland, of calling successively into existence various other banking companies, most of them possessing large paid-up capitals, and numerous bodies of partners. Some of those first established obtained charters by which the liability of the shareholders was limited to the amount of their shares; but the majority of them have been joint-stock companies, every partner of them being responsible to the whole extent of his means for the obligations of the bank. The advantages resulting from this freedom have been strikingly manifested in the stability of the banks that have thus arisen, and in the unlimited and unvarying confidence that has been reposed in them by the people of Scotland,—

a confidence unaffected even by the fear of invasion, which, in 1797, through the run for gold produced by it, led to the failure of various banks in England, and ultimately to the stoppage of the Bank of England itself.* In 1704, the Bank of Scotland commenced the issue of bank-notes for 20s., and the issue of such notes has continued in that part of the empire ever since, without interruption.

In 1783, an act was passed establishing the Bank of Ireland, and prohibiting any other company, having more than six partners, from issuing in any part of that island notes payable to the bearer on demand. Its original capital was £600,000, now increased to £3,000,000.

Till near the end of the eighteenth century, the currency of England and Ireland continued, notwithstanding the introduction of banks of issue, to be almost altogether metallic.† There were, indeed, in the former country, a few private banks which issued notes, but they did so only to a very limited extent. The circulation of the Bank of England amounted, on 31st August, 1710, only to £480,920, from which it gradually increased till 14th March, 1795, when it reached £14,296,360,‡ the highest circulation attained during the last century. At date of the bank suspension in 1797, it was £8,165,640,§ the amount of gold then circulating having been variously estimated at twenty, twenty-five, and thirty millions.

The first period of remarkable speculative excitement which we read of in this country was in 1722,

* Thornton's "Inquiry," p. 72.
† *British Quarterly Review*, August, 1845.
‡ Bullion Report, p. 45. § Ibid. p. 46.

when the mania which had for sometime prevailed in France, in connexion with what was called "Law's Mississippi Scheme," extended to London, and led to the establishment of the South Sea Company, and to a whole series of schemes of the wildest and most extravagant character, ending, of course, as all such periods of excitement do end, in panic and extensive misery. Other periods of excitement followed, including runs on the Bank of England, failures among private bankers, and distress among the mercantile classes; but as they did not bear the same close connexion with derangements of the currency as some of more recent date, it is unnecessary to comment specially upon them.

From the termination of the American war in 1783, the commercial career of the British people was, for a number of years, one of great apparent prosperity. The opening to our trade of the markets of the United States, and the general political repose prevailing, had given a stimulus to commerce, which led to a great accumulation of capital, and also to very extensive speculation. The gradual increase of business seemed to call for the establishment of additional banks. Scotland, under the freedom of banking there existing, was already well supplied with such institutions; but in England, as we have just seen, the law prohibited the establishment of banking companies with a numerous proprietary, while it allowed perfect freedom to any individual, or combination of individuals, not exceeding six in number, to assume the title of banker, and issue bank-notes to all who might be disposed to take them. The consequence was, that banks started up in every

corner of England; and in the year 1792 there was scarcely a market town in the country which did not possess a bank of issue,—to a great extent, however, establishments of a very unsubstantial character, possessing insufficient capital; and from the novelty of the business, and the want of previous training on the part of those by whom they were conducted, very generally destitute of the knowledge essential to the right management of the privilege of issuing notes which the legislature had conferred upon them, and equally so of that required for the safe employment of the deposits which the confidence of their neighbours had entrusted to their keeping. They foolishly enough imagined, as has been done by theorists in more recent times, that the power of issuing notes was one that could be exercised to a greater extent than experience shews that it can be; but the grand error committed by these bankers, as well as by all their successors in misfortune, was, and has always been, the injudicious investment of their deposits, which, in place of retaining them in a form which rendered them immediately convertible, they locked up in advances to tradesmen or speculators, who, when confidence diminished, and deposits came to be withdrawn, were unable to repay the advances that had been made to them.

The threatening state of the relations between the British government and that of France, produced, towards the end of 1792, a general feeling of uneasiness, which the progress of events tended to ripen into utter panic. On 1st February, 1793, the French Convention declared war against Great Britain. On the 19th of same month, the Bank of England threw

out the paper of the banking-house of Lane, Son, & Fraser, who, next morning, stopped payment, with obligations to amount of nearly one million sterling. A run on the banks over the whole of England immediately followed. For this they were to a great extent quite unprepared. A demand for gold for their notes they might have met, but the demand was for payment of deposits, as well as notes. In the general confidence which had previously existed, they had overlooked the risk of a sudden call for repayment of the former. The panic came, and found them with their deposits invested in securities which were, for the time at least, inconvertible; and the consequence was, that out of 274 banks, about 100 were unable to meet their engagements. The country bankers who continued to pay, availed themselves of the whole extent of their means to obtain from the Bank of England gold, which their customers again withdrew from them, and which was extensively hoarded, many having lost confidence in all banks. The issues of the Bank of England were not on a smaller scale than they had been before the panic began, but they were not increased; bankers, especially those in London, kept in their safes larger amounts of their notes than they had been accustomed to do in ordinary times; so that the amount actually circulating from hand to hand was less than it had previously been. Notes were not to be obtained even by those having abundant security to offer; and the consequence was, that merchants possessing ample means, which enabled them soon after to pay every shilling they owed, and bankers who, immediately after the panic subsided, resumed their

accustomed regularity, were obliged to suspend payment. Mutual confidence seemed to have disappeared; and it is hard to tell what might have been the end, had not government proposed to Parliament an advance of Exchequer Bills to the mercantile community. The proposal was immediately acted upon; Parliament authorised the advance of bills to extent of five millions, to such parties offering sufficient security as should apply. Applications were made for loans to extent of £3,855,624, but to extent of £1,215,100 were immediately after withdrawn. Loans were granted to extent of £2,202,000, (applications to extent of £438,524 having been rejected,) and "the whole amount advanced was repaid, a considerable part before it was due, and the remainder regularly at the stated periods."

The commissioners named in the act stated further in their report, that "the advantages of the measure were evinced by a speedy restoration of confidence in mercantile transactions, which produced a facility in raising money, that was presently felt, not only in the metropolis, but through the whole extent of Great Britain. Nor was the operation of the act less beneficial with respect to a variety of eminent manufacturers, who, having in a great degree suspended their works, were enabled to resume them, and to afford employment to a number of workmen, who must, otherwise, have been thrown on the public."

Here we observe the regular series of phenomena which distinguish each of our commercial cycles. First, there was superfluity of money, leading to speculation, and to a rise of prices not warranted by

any change in the relations between the supply of, and demand for, the commodities to which it was directed; and then, when confidence began to abate, there was a deficiency of money, which aggravated all the evils that the community was exposed to, and caused loss and suffering to thousands, who, had the currency been one secured against the evil of over supply, and admitting of expansion to meet the growing necessity for it, might have been saved from both.

The advance of Exchequer Bills made in 1793 served to allay the panic; but so long as the prosperity of the country depended, as it always must depend, on the presence of a sufficient currency, and so long as the presence of a sufficient currency depended on the presence of a certain quantity of gold, it was impossible that, under the circumstances then, and for some time after, existing, the country could enjoy anything approaching to a state of steady prosperity. The subsidies to foreign powers then in alliance with Great Britain; the bills drawn on the Treasury by British agents abroad, to defray the naval and military expenses; and the check given by the disturbed state of the continent to the exports thither of British manufactures,—all combined to throw the balance of trade against this country, and an export of gold was the consequence. When the exchanges began to run very decidedly against this country, which they did in end of 1795, the price of gold, legally exportable, being then £4, 2s. per ounce, the Bank of England, under the notion that they might thereby check the outward flow of gold, contracted their advances. The result, however, was very diffe-

rent from what they expected it would be, and in place of the drain being checked, it was largely increased, not solely for export, but to supply the circulating medium rendered deficient by the slackening in the rapidity of circulation always caused by a failure in mutual confidence; and the consequence was, a drain on their treasury, which, after a time, exhausted it almost altogether. In March, 1796, the stock of bullion in their vaults was £2,972,000, which sank by December to £2,508,000. In the end of 1796 and beginning of 1797, fear of invasion was extensively prevalent. This led to runs on the country banks all over England. Some of these having failed, panic became general, and extended itself to London. Demands for gold poured in upon the bank from every quarter; and to meet these, the whole stock of specie and bullion in her treasury amounted only to £1,272,000, while she had in circulation notes and bank-post bills to amount of £8,640,250, and held deposits to extent of £5,130,140, making a total of £13,770,390, payment of which in gold might, at any hour, be required of her, and a large proportion of which it was evident would be demanded immediately. The drain for gold now coming on the bank was to supply internal wants, and not designed for export; and it was the opinion of the Bullion Committee of 1810, that if the bank directors, in place of contracting their discounts and issues, had had courage to extend them, the drain would have been at once arrested. In London, confidence in the Bank of England was unlimited. The guineas that were applied for were wanted almost solely for people in the country.

What was required in London was simply bank-notes, and so great was the demand for them, for a few days before the bank suspended payment, that interest of money (as shewn by the price of Exchequer Bills) was about sixteen or seventeen per cent. per annum.* The foreign exchanges had begun to set in in favour of this country; and had the bank directors extended their issues with a bold hand, the suspension might have been warded off for some years longer. They did not, however, at least as a body, see the advantage that would have attended the adoption of that more liberal course; and it became thus equally evident that a heavy run was about to be made, and that they were utterly unprepared to meet it. In this emergency, an order of the Privy Council was, on Sunday, 26th February, 1797, transmitted to the bank, prohibiting the further payment of specie till the pleasure of Parliament should be made known. The Parliament took the subject into consideration next day; expressed approval of the step that had been taken by the Privy Council, and authorised the continuance of the suspension till 24th June following; by the expiry of which time, the bank directors believed, or professed to believe, that they would be in a position to resume payment.

On 3d March, 1797, an act of Parliament was passed authorising the issue of notes under £5; and notes for £1 and £2 were, accordingly, circulated immediately after by the Bank of England and by the private bankers throughout that country.

On 22d June, 1797, an act was passed authoris-

* Thornton's "Inquiry," p. 73.

ing the continuance of the suspension bill till one month after the opening of the next session of Parliament, and another, passed in November following, prolonged it till six months after the conclusion of a definitive treaty of peace, while, by succeeding acts, its continuance was legalised from one date to another, till, in 1819, an act was introduced by Mr (afterwards Sir Robert) Peel, to enforce the resumption of specie payments, which were, accordingly, resumed on 1st May, 1821.

The propriety of the course thus taken by government has formed the subjcct of much discussion; but to any one who considers it with an unprejudiced mind, its imperative and absolute necessity must be obvious. It might, indeed, have been averted for a few years, through the adoption of a more liberal course by the bank directors, the exchanges having been, at date of the stoppage,—as they continued to be for some years after,—favourable to Britain. But had it been avoided then, it must have been resorted to whenever the exchanges turned against this country, as a few years' continuance of foreign subsidies, and war expenditure abroad, to which had then to be added the importation of grain, caused them to do; or could have been warded off altogether, only by a contraction of the currency, which would have spread ruin over the length and breadth of the land, and which would have amounted to a virtual confiscation of the propertied capital of the country (in so far, at least, as its owners held it subject to mortgage or personal debt), and to a transfer of it to the moneyed capitalists. In other words, a gold currency could have been maintained in no other way than

by the adoption of measures which would have reduced prices of everything to one-half, or less, of what they had been before, and would have plunged the mercantile community in universal bankruptcy.

Before the passing of this (known as the) Bank Restriction Act, the apprehension was pretty general that notes, not immediately convertible into gold, would not circulate as money. But immediately after the act was passed, a meeting of the leading bankers, merchants, and traders of the metropolis was held in the Mansion House, when a resolution was agreed to, and soon after signed by about four thousand of their number, pledging themselves to receive, and to use their influence to induce others to accept, the notes of the bank as cash, in all pecuniary transactions.

The contraction of the circulation which the bank directors had resorted to, in the hope of being enabled thereby to maintain their position, had been the source of severe suffering to the manufacturing and commercial classes, which the immediate effect of the suspension was greatly to relieve. The enlargement of their discounts by the bank directors was not, however, such as to satisfy the expectation of the London merchants, by whom meetings were held, and remonstrances sent to the bank, as to the necessity for what they termed "reasonable and necessary accommodation." Possibly the demand here may have been for *capital,* rather than for *money,* or mere circulating medium; but it would seem as if the latter had also been deficient in quantity. But though money was less abundant than it was by some desired that it should be, its scarcity does not appear

to have been the result of any diminution in the amount of the bank's issues, which were then, and continued to be, on quite as great a scale as they had ever been before, so that the deficiency in the supply of money was relative merely—not absolute; unless (which was probably the case) confidence in the country banks had been so shaken, as to limit the circulation of their notes, or, at least, to induce them to hold larger reserves of Bank of England notes than they had done previously. But all that, under these circumstances, was required to make money abundant, was the return of mutual confidence, which the satisfactory working of the new system soon restored.

When I speak of the satisfactory working of the new system, I do so with reference to the refutation it afforded to the delusion that a purely paper currency was incompatible with the prosperity of the country that adopted it, and not at all with reference to the judgment exhibited by the bank directors, who seem to have been guided by no rules, but to have allowed themselves to be drifted along by the tide of circumstances. In Scotland, where the currency had long been almost altogether a paper one, the management of their issues was perfectly understood by the banks; and any attempt on the part of any one or more of their number to swell their circulation beyond what the wants of the country demanded would have been at once defeated by the system of exchanges universally acted upon. In England this exchange system was, at that time, neither so well understood nor so extensively or frequently made use of as in Scotland; but still it was

practised to such extent as to have rendered it impossible that any continuous excess of issues should have taken place among the country banks there either. But the Bank of England was freed from any such check. She was also relieved from the obligation of paying her notes in gold; and being constantly exposed to applications for loans by government, all of which were made by the issue of her inconvertible notes, while there was an entire absence of what may be termed absorbing apparatus, it may reasonably be supposed that the currency should have become redundant; that, as a consequence of that redundancy, undue impetus must have been given to speculation; and that as a consequence of that again, depreciation must have ensued,—or, in other words, a higher scale of general prices must, at least at certain times, have prevailed, than under a proper currency system would have existed.

The commercial history of Great Britain during the time embraced in the bank restriction affords ample illustration of the truth of what I have just stated, and exhibits a series of periods of speculation, regularly succeeded by periods of panic—during the former, money being always excessively abundant, and during the latter, the supply of it being deficient, in the opposite extreme; the abundance, in the one case, injuriously fomenting speculation, and the scarcity, in the other case, bringing ruin, not only on those who had engaged in rash speculation, but also on those who were totally unconnected with any business except what was of the most legitimate character.

It has been correctly observed by Mr Tooke, that

"the circumstances which give rise to a spirit of speculation and overtrading are scarcity, or, in other words, deficiency of the supply of some important article or articles compared with the average consumption, and the opening of new and extensive markets, or, in general, of any new sources of demand;"* and it may be added, that under a properly constituted currency system, these would be the only circumstances from which a spirit of speculation would derive its origin, and the extent to which the speculation would be carried would be in a great measure regulated by the extent to which these circumstances were present. But under a currency system, such as existed during the time spoken of, or such as has existed since it came to an end, there is another very fruitful source of speculation—over-supply of money, and short supply of money. The latter depressing prices of commodities below their natural level, it becomes evident that they cannot permanently continue so low; and whenever the panic which reduced them begins to subside, speculation again commences; the return of confidence renders money superabundant; the holders of it, in their anxiety to find employment for it, reduce their rate of interest, and offer it more freely on loan; and the consequence is, that speculation, unguided by any well-judged considerations of supply and demand, again raises prices to a level as far above what is warrantable as they were before sunk below it.

During the years 1807, 1808, and 1809, an enormous amount of speculation existed in this country,

* "Thoughts and Details on Prices," sec. vii. London, 1823.

which led to a reaction, continuing during the last six months of 1810 and the spring of 1811; when commercial affairs exhibited all those features with which repeated experience since then has made every one familiar. Mutual confidence among merchants was said to be at an end. Discount of bills could only be obtained on payment of a large commission, in addition to regular interest. In Manchester and other manufacturing towns, houses stopped payment, not only every day, but every hour, and business was at a stand. In Birmingham, Sheffield, &c., business was, in like manner, suspended. In London, Liverpool, and Bristol, the custom-house stores were full of all kinds of colonial produce, coffee, rum, sugar, &c., held for security of duties, the proprietors being unable to force sales. The number of bankruptcies was unprecedentedly great, amounting in the years 1810 and 1811 to no less than 4814, of which thirty were those of bankers in England, "besides stoppages and compositions, equal in number to half the traders in the kingdom."* A check was given to the ruin which seemed about to engulf the whole mercantile community by the interference of Parliament, which, in April, 1811, passed an act, granting a sum not exceeding six millions sterling of Exchequer Bills, to be advanced by commissioners to the distressed merchants and manufacturers, by way of loan, on adequate security. Not more than two millions of this sum was applied for—the immediate effect of the mere announcement of the measure, as of the similar one in 1793, having been to restore confidence, to give people the assurance that, on sufficient security,

* *Monthly Magazine*, 1st December, 1810.

money might be obtained, and so to enable them to carry on their legitimate operations of business, which had been previously, to a great extent, suspended through the want of it.

This measure did not prevent the return to their natural level of those articles, the prices of which speculation had raised above what was warranted by the relation existing between supply and demand—that being an effect which no abundance of money, or facility of obtaining loans, could by possibility produce, at least for any length of time; but the benefit that it did really confer on the community was this, that it rendered less rapid the fall in prices of those articles which had been unduly raised, and so gave their holders time to render their means available to meet the losses they had suffered; and also that it allowed those engaged in business, unconnected with speculation, to proceed without interruption, in place of being exposed to the ruin which every period of monetary panic brings on thousands whose means, but for it, would be more than sufficient to liquidate all their engagements, but which means the impossibility of obtaining money, even on undoubted security, compels them to sacrifice.

The return of confidence soon again made money superabundant; and circumstances having occurred to warrant the expectation of short supply in some articles, speculation was resumed, and continued on an extensive scale, till, in end of 1814, its effects began to manifest themselves in numerous failures,—the commissions of bankruptcy having, in the years 1814, 1815, and 1816, amounted to 6627, including ninety-two bankers, all of them clearly traceable to

the speculation of the two preceding years, stimulated as they had been by a redundant currency, but for which they would, in all probability, have been carried little beyond the point to which the actual falling off in supplies warranted a rise in prices. I believe I am justified in making this statement, and in adding to it that so long as any speculation is carried on solely by those who conduct it on their own capital, there is little danger of its being carried to any unreasonable extent; and that the wild character which speculation generally assumes, is owing to the fact that some, at least, of those engaged in it are parties who trade on the capital of their neighbours, and who, in virtue of their so doing, occupy a position pretty similar to that of gamblers in a lottery or at a gaming-table. The amount they have at stake is probably a mere trifle, compared with what a successful issue to the speculation may enable them to gain; and the consequence is, that they run risks which no man in his sound mind would encounter, whose capital was proportioned to the magnitude of the risk;—the facility thus enjoyed by speculators of carrying on rash speculations being a necessary result of the uncertain and hazardous character borne by all mercantile transactions; and that again being equally the necessary result of a currency system which recognises money as capital, and which allows the creation and issue of it, in exchange for capital, to an extent greater than is necessary for the discharge of its only legitimate function, namely, the duly conducting the interchange of commodities.

The same vicissitudes distinguished the years succeeding, till, in 1819, an act of Parliament was, after

considerable opposition, passed, providing for the gradual resumption of cash payments. Under this, known as Mr Peel's Act, the restriction was to continue in force till 1st February, 1820, from which time till 1st October in same year holders of Bank of England notes were to be entitled to demand payment in gold bullion of standard fineness, in quantities not less than sixty ounces, at rate of £4, 1s. per ounce. From 1st October, 1820, till 1st May, 1821, payment might be demanded in bullion at rate of £3, 19s. 6d. per ounce. From 1st May, 1821, till 1st May, 1823, payment might be demanded in bullion at the mint price of £3, 17s. 10½d. per ounce; and after the date last mentioned, all notes of the Bank of England were to be payable in the coin of the realm; the notes of private banks continuing, as formerly, to be payable in notes of the Bank of England. The same act removed the restriction formerly existing against the melting or exporting of gold and silver coin.

In consequence of the favourable character of the foreign exchanges, through which gold flowed into the country, the bank was enabled to anticipate the provisions of this act; and on 1st May, 1821, resumed payment in gold, which has never since been suspended.

Whether, during the period embraced in the bank restriction the currency of this country was depreciated; and if so, then to what extent? has formed the subject of much discussion. During that time, it was very generally maintained that there was no depreciation, that money had not become less

valuable, but gold more so, and that, accordingly, the advance of price which was observed in many articles was in no respect attributable to the bank restriction. But after the return, in 1821, to a metallic or convertible currency, it came to be more generally held that the currency, during the greater part of the period in question, was not only *not* free from depreciation, but that it was depreciated to an enormous extent, and that all the rise in prices of grain, and some other leading articles of commerce, amounting to from 50 to 100 per cent. above the prices they bore in the end of last century, resulted chiefly from expansion of the currency. While, by a third class, it is held that the currency was depreciated, but to an extent neither greater nor less than is indicated by the rise in the market price of gold above its mint price of £3, 17s. 10½d. per ounce.

These opinions are all worthy of consideration; and I will make a few remarks on each, beginning with the last.

The word "depreciation" has been used to express two different meanings. The oldest, being that in which alone it is used by classical English writers, is quoted by Dr Johnson as indicating "the act of lessening the worth or value of anything;" and, according to this definition, the meaning that would be conveyed by the term, "depreciation of the currency," would be this—that a given amount of it possessed a smaller purchasing power at one, than at another, of two dates; so that the currency of a country, having for a length of time consisted of, say 100,000 pieces of money, and being suddenly increased to 200,000, would properly be said to have become

depreciated through the rise in the prices of commodities which would likely follow such an occurrence,—the depreciation being the same whether these pieces of money consisted of salt or gold, or leather or paper, and the extent of the rise in prices being (in the absence of any change in the relation between the supply of, and the demand for, commodities) the measure of the depreciation.

The newer sense is one in which it is used only by writers on political economy; and according to it the term, "depreciation of the currency," is explained by Mr Tooke to mean "that state of it in which the coin is of less value in the market than by the mint regulations it purports to be, or in which the paper that is compulsorily current is of less value than the coin in which it promises to be payable;"* in terms of which definition, the statement that the currency of the United Kingdom was, at any given date, depreciated to extent of ten per cent., is only another mode of expressing the idea that the market price of gold was above its mint price, to such extent that a given sum in that currency would serve to buy no more than nine-tenths of the quantity of gold which it would have bought had that metal been procurable at its mint price of £3, 17s. 10½d. per ounce; but it conveys no expression of opinion as to the extent to which the currency may have been depreciated as regards commodities in general,—that is, as to the extent to which prices in general may have been raised by means of the increased issues. It will be seen from this that Mr Tooke uses the term "depreciation" without any reference to a general fall in the

* "Thoughts and Details on High and Low Prices," sec. ii.

purchasing power of the currency; so that, "whatever be the amount in circulation, whether greater or less than at a former period, or still the same, should circumstances arise to create a demand for coin in exchange for the paper, in such a degree as to endanger the power of the bank to fulfil its engagements of paying in coin, the circulation is excessive, there is an over-issue of paper, and the true, proper, and only remedy is a diminution of it;" and "the test of the depreciation of bank-notes, according to the preceding explanation of the term, is, in default of a payment on demand, an excess in the market price of gold, and, in the absence of any quotation of gold, a depression of the foreign exchanges below the limits of the expense of transmission of the metals;"* or, in other words, that however much the currency may have been at the time contracted, compared with what it was previously, the occurrence of a sudden demand for gold—for the purchase of grain rendered necessary through a deficient harvest, or to fill the vacuum, caused by the failure of mercantile confidence, in the circulation of some neighbouring state, or from any other cause proceeding, whereby competition raises the price of that metal above its mint price of £3, 17s. 10½d. per ounce—serves at once to stamp that currency as "depreciated," though in reality its contraction may have been such as to have depressed prices of all other commodities fifty per cent. below their former level. While, on the other hand, so long as the balance of trade continues favourable, and there is therefore no demand for gold for export, the currency would be pronounced to be non-depreciated,

* "Thoughts and Details on High and Low Prices," sec. ii.

although, as an effect of its redundancy, prices of all commodities should have risen fifty per cent. above the level they occupied at the starting point, by comparison with which the currency is judged of; or in other words, that "there can be no depreciation of paper which circulates at par with coin, *whatever be its quantity*." *

Such being the sense in which the word "depreciation" is used by those writers, it cannot for a moment be denied that the currency during the period in question was, as they assert, "depreciated" to extent of from one to thirty per cent.;—all that is meant thereby being, that the market price of exportable gold had to that extent risen above its mint price; while, without any contradiction, it might be added, that the currency during that period was not, in the ordinary English sense of the word, depreciated at all.

Since the return to a metallic system, in 1821, it has been frequently maintained, especially by those in whose minds redundant currency and national prosperity are inseparably associated, and who regard increased issues of money as the grand panacea for all the ills that trade is heir to, that the currency, during the greater part of the period embraced by the bank restriction act, was not only *not* free from depreciation, but that it was depreciated to an enormous extent; and that all the rise on prices of grain and some other leading articles of commerce, amounting in some cases to from fifty to one hundred per cent. above the prices they bore in the end of last century, resulted almost entirely from expansion of the currency, or depreciation.

* *Quarterly Review*, vol. iii. p. 136.

This opinion has been very fully investigated by Mr Tooke, in his elaborate work on prices, and has been proved by him to be utterly destitute of foundation. A high scale of prices was no doubt observable during a great part of that period, in certain articles; but a low scale of prices was equally observable in others. And that gentleman has shewn, on the clearest evidence, that the great rise which did take place in the former was the result of the speculation directed to them from real or anticipated falling off in the supply; this being unaccompanied by any rise in other equally important articles of commerce, which would also have risen in price if the doctrine held by the advocates of the depreciation theory were a correct one, and if it were possible that, in a country situated with regard to banking institutions as Britain then was and now is, an increase in her currency *could* operate on prices in any other way than by giving an impetus to speculation. And even in the case of the articles which speculation had raised to an unwarrantable height, the advanced prices were not permanent, "various kinds of raw materials, imported at the most extravagant rates of freight and insurance, having, in 1810 and 1811, and again in 1813 and 1814, been sold at prices that would not pay more than the mere charges, without leaving one farthing for prime cost." * But, except after some sudden contraction in the circulating medium, causing a depression of prices so extreme as to create the assurance that they must soon rise again, speculation never turns to any articles except those in which

* Tooke on "Prices," p. 183. Edition of 1823.

there seems some reason for apprehending a change in the relation between their supply and the demand for them; and by the tables in Mr Tooke's work it appears that the articles in which a great advance took place were precisely those of which the war caused an increased consumption, or the supply of which was diminished through failure in the harvest, or was interrupted through the hostile position towards Britain occupied by the countries from which supplies of them had been accustomed to be drawn.

An increase (such as actually occurred) on the charges of importing hemp and flax, from 20 per cent. on the prime cost, to 120 per cent., or from £5 to £30, or, in some instances, £40 per ton—these articles being at the time indispensable for the use of the navy—was sufficient to account for a corresponding advance in their prices, even under a contracted currency. Hemp, which, in 1793, was only £22 per ton, had risen by 1802 to £86, from which, in course of the same year, it fell to £32,—the issues of the Bank of England continuing to increase. By the year 1809, it had arisen to £118 per ton, while, in 1815, the bank circulation being fifty per cent. greater than it was in 1809, the price fell to £34 per ton;* but these changes, being directly the opposite of what they would have been had the state of the circulation been the primary cause of the high prices, clearly shew that however much the currency may have helped to increase the speculative excitement, it was not the originating cause of it. In the article of timber

* "Progress of the Nations," sec. iii., chap. xii.

from Riga, the freight on which, when the war was over, fell to 24s. per load, £8 to £10, and upwards, per load of freight was paid during the war; and similar observations might be made with reference to every one of the articles on which any remarkable rise of price took place: while, on the other hand, colonial produce, in the face of increased charges of importation, was cheaper than it had ever been previously; prices of many descriptions of British manufactures were ruinously depressed; and wages, except in the case of those classes for whose services the war had created an unusual demand, were actually lower than they were before the bank restriction commenced.* And then, as regards grain, the frequent high price of which, during the period in question, has been very generally ascribed to excessive issues of paper-money, the entire absence of any connexion between the one and the other is sufficiently established by the facts, that, in 1798, the average price per quarter of wheat in England was 50s. 3d., the average circulation of the Bank of England being £12,706,400; and in

1799, the average price was 67s. 5d., and the average circulation £13,674,900;

1800, the average price was 113s. 7d., and the average circulation £15,253,740;

1801, the average price was 118s. 3d., and the average circulation £16,169,550;

1802, the average price was 67s. 5d., and the average circulation £17,054,450;—

the largest circulation existing simultaneously with

* Tooke on "Prices."

nearly the lowest price.* "Corn was as low in the summer of 1804, and meal as low in 1808, as they had been in 1797; and many other descriptions of commodities were, in 1807, and again in 1810 and 1811, as low as they had been at the commencement of the bank restriction; moreover, many descriptions of labour were lower in 1811 than in 1797." †

There appear to me to be two grounds on which we are warranted in rejecting, as erroneous, the opinion now under consideration—the one practical, the other theoretical. Under the former, it has been shewn by Mr Tooke that the advance in prices was not general, but was confined to the articles in which the relation existing between supply and demand had become altered. The other seems to me to be equally conclusive, namely, that in a country where banking institutions exist, where all the money issued is issued through their medium, and where money is never issued except on loan, and at interest,—no increase of issues can have any effect on prices, except in so far as they may tend to lower interest, give greater facilites for borrowing, and so lead to speculation, and to the rise of prices always temporarily resulting therefrom. Among a people by whom the lending of money at interest is not practised, an addition to the currency tends, by direct operation, to raise prices. But in circumstances such as existed in this country during the period in question, the effect of the enlarged issues was limited to this—that a real or anticipated falling

* Resolutions moved by Mr Vansittart in House of Commons, 13th May, 1811.

† Tooke on "Prices," sec. xiv., p. 204. London, 1823.

off in supplies gave the first start to speculation; and the difficulty, owing to a redundant currency, of finding employment for money, accelerated its progress. The speculation thus fomented, caused greater extremes and more rapid fluctuation; but in no commodity to which it was directed was the *average price*, during the period extending from a little before the commencement of the speculation to a little after its collapse, one iota higher than it would have been had the speculation never existed, or than it would have been had the currency been a scientific currency, free alike from deficiency and redundancy.

We have now to consider the opinion generally entertained, during the continuance of the bank restriction act, that the currency had not become depreciated, that money had not become less valuable, but that gold, grain, and various other articles, in the prices of which a marked advance had taken place, had become more so; and that the advance in prices of these was in no respect attributable to the bank restriction.

The expression, "depreciated currency," is one that seems to be generally made use of with an extreme vagueness of meaning; and to convey any distinct idea to the mind, it would be necessary to condescend, not only on the exact point of time as to which the observation is made, but also on the exact period with reference to which the currency of that point is said to be depreciated. Thus, when it is in general terms asserted that the currency during the course of the restriction act was depreciated, the inquiry immediately suggests itself, as to what

precise date the remark has reference; and also as to what former or more recent date is the one with which the comparison is made; for, it is evident that what is true of it during the speculative excitement of 1808 or 1813, may be quite inappropriate as regards the panic periods of 1811 or 1815: and I am inclined to believe that, by selecting suitable dates, it would be quite as easy to shew that the currency of the period in question was *appreciated*, as that it was *depreciated*. If we take as the point of comparison, on the one side, the few weeks which preceded the passing of the restriction act in 1797, when such was the scarcity of circulating medium, that sixteen or seventeen per cent. was the *lowest* rate of interest at which money could be borrowed on security of Exchequer Bills,* I dare say it would be difficult to fix on any date thereafter at which prices in general were lower. But if we select the year 1811, or the year 1816, or some of the other seasons of panic, which prevailed under the operation of that act as much as they did before, or have done since, we should have no difficulty at all in finding many periods, before it came into existence, when general prices were much higher; or rather, we should find that prices during those periods of panic were depressed very far below what were the average prices of the same commodities before that act was passed. Such being the case, it appears to me that the question, "Was the currency depreciated during the continuance of the bank restriction act, or was it not?" is one so utterly vague, that no clear or distinct conclusion could be drawn from the consideration of it;

* Thornton's "Inquiry," 1802, page 73.

and I am inclined to believe that the most that can, with reference to strict truth, be said regarding it is simply this—that with a currency constituted as the currency of Great Britain was then,—the same as it would be with a currency constituted as that of Great Britain is now,—the whole series of twenty-four years, during which the restriction lasted, must have exhibited a continual succession of changes, the currency being "appreciated" or "depreciated" exactly as the barometer of mercantile confidence might happen to stand high or low, and being "appreciated" or "depreciated," with reference to the currency of former or later periods, exactly according to the state of mercantile confidence during the points of time selected for comparison.

As regards prices of general merchandise during the period in question, the relation of these to the currency has been so fully investigated by Mr Tooke, and it has been so unanswerably shewn by him that the rise in prices of all the articles in which any remarkable advance took place, was the result, primarily, of a change in the relation between supply and demand—aggravated, no doubt, by the effects of redundant currency—that any remark here on that subject would be superfluous. But there is one commodity, with reference to which it appears to me that Mr Tooke has taken an erroneous view—namely, gold; his mistake with regard to which, I will now endeavour to point out.

It was held, then, during this period, "that money had not become less valuable, but that gold had become more so." But this may perhaps come into the hands of some to whom the words now quoted

may be unintelligible, or may appear to convey an idea altogether erroneous; and it may therefore be well that I should remind the reader that, though under a currency system such as that now, and for the last thirty-five years, existing amongst us, the price of gold can undergo no change (or, at least, next to none), it is not so (1) under a currency consisting of paper not convertible; nor (2) under a currency consisting of gold alone, or of paper and gold combined, where the exportation of coin is prohibited; nor (3) under a currency where seigniorage is charged, —under all of which the price of gold in the market may be higher or lower than its mint price. Where a currency consists of paper alone, as that of the United Kingdom did during the continuance of the bank restriction act, gold becomes a regular article of merchandise, and rises or falls on the same principles as all other commodities. It may, then, fall below its mint price, or it may rise above it, accordingly as it may be, or may not be, in demand, which it will be exactly as the exchanges may happen to be for the time favourable or unfavourable. Even under a currency consisting of gold, or of paper convertible into gold on demand, the same will hold good if the exportation of coin, or the reduction of it into bullion, be prohibited by law, as was the case in this country prior to the year 1819; and we find, accordingly, that before the passing of the bank restriction act, the currency being then a metallic or convertible one, whenever the balance of trade ran against this country, so that an export of gold became necessary for the adjustment of that balance, the price of exportable gold, that is, of foreign coin,

or of bars which bore evidence of having been brought from abroad, or of bar-gold which the seller could swear had not been made from the melting of British coin, bore a higher price than gold guineas, ranging from the then mint price of £3, 17s. 6d., up to £4, 2s., and in some cases, £4, 8s. per ounce; * while, on the other hand, a favourable balance of trade had the effect of lowering the price of gold bullion below the mint price; so that, for three years after the passing of the bank restriction act, the inconvertible paper of the Bank of England bore a premium,† or served to purchase gold at a price below its mint price. The same variation between mint and market price will also be observed wherever the government charges a seigniorage on converting the precious metals into the coin of the country. In such a case, bullion will generally bear a price lower than that of an equal weight of coined gold, in exact proportion to the government charge for coining it; while its at any time bearing a higher price than coined gold, will depend entirely on whether or not the exportation of government coin is prohibited. Were such prohibition to exist, then the presence of an unfavourable exchange might raise the price of bullion (the exportation of which is presumed not to be illegal) above the price of coin; but where the export of coin is not prohibited, then under no circumstances could its price, in the case supposed, be less than that of bullion.

That these explanations are not unnecessary seems to me to be sufficiently shewn by the facts, that in

* Bullion Report of 1810, page 8.

† M'Culloch's "Commercial Dictionary." Art. "Bank of England."

a recent publication, evidently the work of a man of education and intelligence, the remark of Mr Thornton, in his book on "paper credit," "that bullion is a commodity; that it rises and falls on the same principle as all other commodities," &c., is quoted as a singular example of misconception: and that in another—the work, too, of a man of almost European celebrity—deep commiseration is expressed with the Bank of England, at the injustice it suffers in being compelled to pay its notes in gold, at the mint price of £3, 17s. 10½d. per ounce,—the effect of the obligation to do so being, he observes, to expose the bank to ruinous loss when the market price is above the mint price. Thus, he says, if they have fifteen millions of notes in circulation, and the market price of a sovereign comes to be 21s., the bank would lose fifteen million shillings, or £750,000, besides having a large part of its specie drawn out. The remark about a sovereign coming to be worth 21s., pretty well neutralises what went before, and goes after it; as it must be obvious to any one who has read what I have stated on the last page, that a sovereign, under the system of currency now existing in this country, never can be worth more than twenty shillings, nor worth less. Before the passing of the currency bill of 1819, the weight of metal contained in a gold guinea might be worth more than a guinea, because the bullion, or foreign coin in which it might be, was exportable; while, by law, a coined guinea was not; and thus the latter was destitute of a property which the former possessed, of being made available for the discharge of a debt owing in a foreign country: and so, under the restriction act, a guinea might be

worth more than twenty-one shillings, because as bullion it might be worth more; and though the reducing it to the state of bullion was an act prohibited by law, still it was one of those acts the perpetration of which could very seldom be proved against any one, and which were, in consequence, extensively practised: but since 1819, the exportation of gold coin has been legal, and it follows, of course, that the price of gold, of the same fineness as sovereigns, must always be weight for weight with that coin, with exception of some trifling difference to cover the loss of interest incurred in the period elapsing between the time when the gold is taken to the mint to be coined, and the time when it is returned in its new form, which may be estimated at 1½d. per ounce. The price of standard bullion, therefore, can never fall below £3, 17s. 9d., nor rise above £3, 17s. 10½d.; because the former price can always be obtained from the Bank of England, and at the latter price the bank is bound to supply whatever demand may exist on the part of those holding her notes. While, at same time, it is evident that the Bank of England suffers no injustice in being made to buy at £3, 17s. 9d., and to sell at £3, 17s. 10½d. per ounce,—what she does being merely this—that when any one takes to her counter a quantity of gold bullion, she gives him paper-notes for it at the price of £3, 17s. 9d. per ounce, obliging herself to return the gold, or gold as good, to any one presenting the notes, but at the advanced price of £3, 17s. 10½d. per ounce,—the difference of 1½d. per ounce forming the bank's remuneration for trouble and storage.

After this explanation, I now proceed to consider the

opinion that, during the period of the restriction act, "money had not become less valuable, but gold had become more so." But an explanation of the terms used may again be necessary. That "gold has become more valuable," is an expression which, used with reference to any one country, conveys distinctly the idea that a given quantity of it will exchange for a larger sum in the currency of that country, if its currency be not a metallic one; or if it be a metallic one, then that it will exchange for a larger amount of general commodities, than it would have done at some former period: just as, in the same way, the remark that grain, or cotton, or iron, has become more valuable, suggests the idea that a given quantity of any one of them will exchange for a larger sum in the currency of the country, than at some other time. But when it comes to be said in general terms (as, for example, in the "Report of the Bullion Committee of 1810," and in the works of various writers on the currency question) that gold was, during the bank restriction, dearer in this than in other countries, the words fail entirely to convey any distinct idea. If it be said that cotton is dearer in Manchester than in New Orleans, we at once understand that a given weight of gold, which, unless the contrary be mentioned, is always presumed to be the standard by which the relative values of commodities in different countries are estimated, will exchange for a greater quantity of cotton in the latter city than it will serve to purchase in the former. But if the statement be, in general terms, that during the period in question gold was dearer in Britain than on the continent, the consideration at once arises—what is the standard by

reference to which the dearness is to be estimated? Is it cotton wool? If so, then during a principal portion, if not, indeed, during the whole, of the bank restriction period, the statement would prove correct. In beginning of 1810, a pound of Brazil cotton, selling in London for 2s., was worth 6s. in Amsterdam, and 8s. in Paris;* that is, was worth three times as much gold in Amsterdam, and four times as much in Paris, as in London. Gold was therefore cheaper in the two last named cities than in the first, cotton wool being the standard of value. If colonial produce or British manufactures be taken as the standard, as certainly would it be found true that gold was dearer in Britain than in France,—in the latter of which countries, during the years preceding the conclusion of the war, sugar sold at prices equal to from 5s. to 6s. per lb.; coffee at 7s. per lb.; indigo at 18s. per lb.,† and so on; while the manufactures of Great Britain commanded prices in almost every part of the continent from 50 to 200, or even 300 per cent. above those existing in this country at the same time;‡ or, in other words, gold was so much more valuable in Britain than in France, that an ounce of it would serve to buy three or four times as much cotton, coffee, sugar, indigo, &c., in the former as in the latter country. But, on the other hand, timber or grain, or hemp or silk, being taken as the standard, then as undoubtedly would it be found that gold was cheaper in Britain than in the parts of the continent from which its supplies of these articles

* Bullion Report, Minutes of Evidence, p. 67.

† Tooke on "Prices," sect. xii., p. 181.

‡ Bullion Report, Minutes of Evidence, p. 63.

were respectively derived; the prices in the one country bearing about the same proportion to those in the other, that the prices of British manufactures and colonial produce prevailing on the continent bore to those prevailing in the United Kingdom. But without some standard being expressly quoted, the statement that gold is dearer in one country than in another, is neither more nor less than downright nonsense, and utterly reprehensible,—in as far as it tends to mislead both those who make use of it, and those who, in ignorance of its unmeaningness, hear it used.

It is quite true that, day after day, and week after week, we find in the pages of the *Times*, and the *Economist*, the announcement that gold is dearer in London than in Paris, or dearer in New York than in London, &c.; and used as it is there, the phrase is unobjectionable. It is addressed to merchants, and is couched in mercantile language. But merchants, in their speech and correspondence, aim not at scientific accuracy of expression, but at brevity; the latter of which is certainly highly characteristic of the term in question,—conveying, as it does, in ten words, to the mind of any one at all acquainted with the subject, a series of ideas which could not be fully expressed in less than ten times the number; but the idea expressed is something very different, indeed, from anything connected with the price of gold. What the phrase, "Gold is one per cent. dearer in New York than in London," really means, is this—"The balance of trade, between Great Britain and the United States is at present in favour of the latter country; and this to such extent

that the amount of bills on London, offering for sale in New York, so exceeds the amount of funds to be remitted to London, for the discharge of debts owing by the merchants of America to those of Britain, that sellers are forced to part with their bills at such reduced price, that one hundred ounces of standard gold in New York will serve to purchase bills on London for an amount of British money equal to one hundred and one ounçes of that metal."

All this series of ideas is conveyed by the simple expression just quoted; but it will be observed that the price of gold forms no part of their subject. What it indicates is simply that there is a greater amount of bills on London offering for sale in New York than is required for making the remittances which the merchants of that city have to make to Britain; or, in other words, that the exchange is in favour of New York, and against London; the probability being at same time very great, that the one hundred and one ounces of gold in London, obtained in exchange for one hundred ounces delivered in New York, will be found not to be of less value than when, a few months previously, the same quantity could not have been got for a payment in New York of less than one hundred and two ounces, but to be of much greater value. Formerly, one hundred and two ounces had to be paid in New York for a hundred and one ounces in London, because the exchange was in favour of Britain; now, the exchange being against Britain, the same quantity can be got for two ounces less of gold in New York; and yet it is probable, and generally the case, that each one of the one hundred and one ounces obtained in exchange

for the one hundred ounces in New York, will possess a much greater purchasing power in London than each of the one hundred and one ounces did, obtained in exchange for the one hundred and two ounces in the former city; because, in the latter case, the exchange being in favour of Britain, confidence would likely be high, and prices of commodities high also, while, in the other case, the exchange being unfavourable, mercantile confidence would be likely to be diminished, and prices of commodities lower than before: so that, in place of indicating that gold is really dearer in New York than in London, the series of propositions expressed by the phrase in question would rather seem to lead to the conclusion that it was dearer in London than in New York, though, as before remarked, the expression, *when so used*, is quite unobjectionable, being merely a form of words adopted by merchants to shew the state of the exchanges, and the price of bills in one of two countries on the other. If, in New York, or Hamburgh, the amount of bills on London offering for sale exceeds the demand, then their price falls, and gold, a given quantity of it serving to buy a bill on London for a larger amount than before, is said to be dearer; while, if the demand for bills on London exceeds the supply, then their price rises, and gold is said to be cheap. When merchants say that gold is cheaper in London than in New York, they mean that bills on the former city are in excess of the demand in the latter,—that is, that the balance of trade is in favour of America; and when they say that gold is cheaper in New York than in London, they mean that the demand for bills on the latter

city is greater than the supply in the former,—or, in other words, that the balance of trade is against America; but no merchant, of ordinary intelligence, would ever suppose that such expression was used to convey the idea that the purchasing power of gold, in one country, or the other, had undergone any special change.

So long as the currency of a country consists of gold, or of paper convertible into gold, no demand for that metal can have any effect in raising its price; but when, as was the case during the continuance of the bank restriction act, the currency consists of paper not convertible, then gold assumes a market price, just like any other commodity,—and that price will be regulated, as the prices of all other commodities are, by the relation existing between the supply of it and the demand for it. In the former case, a great demand for gold, and the withdrawal of a quantity of the coin from circulation, would as effectually raise the value of the metal, as it would in the latter,—that is, a given quantity of gold would, in such case, serve to purchase a larger quantity of other commodities; but it is only in the latter case that the *price* of gold would be raised. In the former case, it is itself the standard by which all values are denoted, and, therefore, its *price* is unchangeable; but in the latter case, it has ceased to be the standard. Its place, as such, has been assumed by paper money, and, henceforward, its price, according to the new standard, will be regulated altogether by supply and demand. Under such circumstances, the occurrence of an unfavourable balance of trade, by causing a demand for gold for its adjustment,

will have the immediate effect of raising the price of that metal,—the extent of the advance in its price above the mint price depending entirely, as the price of every other commodity does, on the extent of the demand, as compared with the extent of the stock out of which it has to be supplied; and it seems strange that any one, whose mind is free from prejudice on the subject, should consider it remarkable that an unusual demand for gold should, in beginning of the present century, have led to an advance in its price, or conceive that the fact of that advance having taken place can be accounted for only by supposing that the currency had become depreciated.

During the period in question, the obstacles attending the shipment of our manufactures and colonial produce to the continental markets were so great, as to limit them to a small amount compared with what they had been before; while from the ports of several populous countries, which had formerly been extensive customers, they were excluded altogether. The importing of continental produce, though attended with difficulty and expense, being carried on entirely through means of foreign ships, to which enormous freights were generally paid, estimated, on an average, at about fifty per cent. on the original cost of the goods,* was not interrupted to the same extent as our exports; and many articles, our supplies of which were then drawn almost entirely from the continent, were so indispensable to a maritime country, that the obtaining of them was necessary at whatever price. These alone were sufficient to create an unfavourable balance of trade,

* Bullion Report, Minutes of Evidence, p. 64.

and a consequent demand for gold for its adjustment; but to them must be added other circumstances, all tending to make that balance still more unfavourable,—such as the large exports of gold for the purchase of grain, to supply the deficiencies of several bad harvests; the exports of gold for payment of wine and brandy from France, which are said to have amounted to considerable sums, and for which no merchandise whatever was exported from this country;* and the export of gold, or of goods for which no returns were received, for payment of naval and military expenses abroad, and of subsidies to foreign powers,—the effect of the whole being so to drain this country of the precious metals, that gold coin had almost ceased to be observed in our circulation, and the market price of bullion rose above its mint price to extent, at certain dates, of nearly thirty per cent. There is nothing in all this, however, to imply that the currency had become "depreciated," in the ordinary English sense of the word; and though it is self-evident that had the currency been a metallic or convertible one, no such difference between the mint and the market price of gold could, by possibility, have existed, it seems to me also evident that the arguments by which Mr Tooke has proved that the advance in prices of certain other commodities was not properly traceable to depreciation in the currency, equally serve to prove that the rise in the price of gold was not properly traceable to that cause either.

By those who hold that the rise in the price of gold

* Bullion Report, Minutes of Evidence, p. 64.

in this country was the result, not of increased demand for it, for the adjustment of unfavourable balances of trade or payments, but of a depreciation in the currency, it was argued as follows:—"A local rise in value of bullion, confined to this country, would no doubt account for a greater quantity of bank-notes being required here, where the rise had taken place, to purchase the same quantity of bullion. But it will not account for bank-notes being exchanged in Rotterdam, Hamburgh, and other places, where, according to this theory, bullion had not risen in price, for 13s., 14s., or 15s. This fact we hold to be quite conclusive; for if Bank of England notes had not experienced a loss of value, why should they have been sold, where bullion had not risen, for 14s. or 15s.?"*

Had these Bank of England notes been offered to a Hottentot merchant at the Cape of Good Hope, it is probable he would have valued them at less than a silver shilling; but no inference can properly be drawn from this, as to Bank of England notes having experienced a loss of value: and neither can any such inference be drawn from the fact that in Rotterdam or Hamburgh, some parties, in want of the current coin of the places where they were, should have parted with such notes, giving a one-pound note for a quantity of that coin not equal to more than 13s. or 14s. British silver money. If they were sold below their value, their having been so proves nothing more than this—that the persons who sold the notes at such prices, dealt with those who either did not know their value, or, knowing their value,

* *Edinburgh Review*, February, 1816.

were disposed to buy them as cheaply as possible. But what was the real value of a Bank of England note to a merchant in Rotterdam? Simply this—the amount of gold or silver which the possession of the note would give him the command of in London, due allowance being made for the expenses attendant on the bringing it thence; and if the price of gold happened to be, at date of the supposed transaction, as high as it was in the year 1813, the price, after all, may have been not an unreasonable one, and the fair value of the notes, as instruments for the purchase of gold, may have been just what has been mentioned as the price they were sold at; but how this can be held as quite conclusive on the question whether the issues of Bank of England notes were excessive, and whether the rise in the price of gold in Britain was the result of depreciation in the currency, or of unusual demand for gold, I confess myself quite unable to comprehend: as I am, also, to discover how the fact of gold having risen, or not having risen in Rotterdam, could in any way influence a party there as to the price, in gold, he should pay for a certain quantity of that metal delivered in London, or, what is the same thing, for a Bank of England note, or a bill on that city. In so far as this argument is concerned, I am inclined to believe that it throws not the smallest light on the subject, and still leaves us in the dark as to whether the purchasing power of the currency of the date spoken of was less—estimated in commodities on an average, gold being one of them—than it was before the bank restriction; or whether, it continuing the same, the

rise in the price of gold was the consequence of increased demand for it.

It was also argued that "a local rise in the price of bullion, confined to this country, and continuing for years, at the rate of 20, 30, or even 40 per cent., is itself a phenomenon which it would be very difficult to explain. The price of a commodity can hardly continue for any length of time higher in one country than in another, unless either its exportation or importation be prohibited; and even in this case the irresistible attraction of a higher price is frequently found to render nugatory the strictest regulations. If gold had been 20 or 40 per cent. dearer in this than in any other country, if it could have been laid out to so much greater advantage in the purchase of British produce, it is contrary to every known principle to suppose that we should have continued so long unsupplied with this necessary commodity." *

This quotation serves strikingly to illustrate the remarks I made above (page 185) on the inaccuracy and positive absurdity of speaking of the price of gold being higher in one country than in another. We have seen that, in so far from the price of gold being higher in this than in the other countries of Europe, it was, estimated in articles of continental production, very much lower; and while silk and hemp, and grain and timber, bore enormous prices here, they were, in the places on the continent where they were most extensively produced, almost destitute of value altogether; though the price of gold

* *Edinburgh Review*, February, 1816.

seems to have been high, indeed, in Britain, when estimated in colonial produce and British manufactures, large quantities of which could be obtained in exchange for small quantities of gold — so that, as regards them, the local rise in the price of bullion was real and undeniable; but any one having distinct ideas, and seeking, in plain English, to convey the idea in question to another, would simply say that prices of those commodities had fallen. The writer says, that "the price of a commodity can hardly continue for any length of time higher in one country than in another, unless either its exportation or importation be prohibited;" but he has forgotten that such prohibition did really exist—not as regards gold, but as regards the commodities which, had the people of the continent been disposed to avail themselves of the low prices of British manufactures and colonial produce prevailing here, they would have obtained in exchange for their gold. The only way in which they could avail themselves of the high price of gold, or low price of British commodities, was by laying it out in the purchase of the latter; and they doubtless knew well, that when they should have done so, the carrying of their purchases to their respective countries would be attended with extreme danger, and with expense, compared with which the original cost of the goods was a mere trifle. Goods sent from this country for use in Germany and France, were in many cases shipped to Salonica, from whence they were conveyed on mules and horses through Macedonia, Servia, Hungary, &c., till they arrived at their respective destinations;* the expense of which must

* Tooke on "Prices."

have been many times greater than the original cost of the goods in this country. "The freight of indigo from London to the continent does not, at present, exceed 1d. per lb., whereas it amounted, at the period referred to, to about 4s. 6d."* This argument, like the one that went before it, throws no light on the subject, and still leaves unsettled the question whether the issues of the Bank of England were excessive, and whether the high price of gold was the result of its scarcity, as compared with the demand for it, or the result of excessive issues of bank-notes and consequent depreciation in the currency.

It was also said—"In comparing, by means of the exchange, the bullion of this country with that of other countries, we find, at the time when its price in bank paper was so high, that its real value, so far from being higher, was lower in Britain than on the continent."† Had the reviewer added the words, "estimated in continental produce," his proposition would have been unchallengeable. This, however, is not the mode of proof he adopts; but he goes on to say—"It was stated in evidence before the committee of the House of Commons, by different merchants and bankers, that, at the time when bullion was selling at £5, 10s. per ounce in bank paper, a pound of it paid to a banker in London would not have procured a bill upon Hamburgh for the same quantity, without the addition of a premium at the rate of 5½ per cent." And why? Simply for the reason which

* M'Culloch's "Commercial Dictionary." Article, "Prices."

† *Edinburgh Review*, February, 1816.

caused gold to bring £5, 10s. per ounce—namely, that the balance of trade being against Britain, and in favour of the continent, a greater amount had to be remitted to Hamburgh than had to be received from it, and the excess had to be sent across in gold; so that, as a matter of course, no one would, in exchange for one hundred pounds of gold in London, give an order for the delivery in Hamburgh of a quantity of gold greater than, were he shipping one hundred pounds of gold to that city, would remain to him as net proceeds, after deduction of packing and shipping charges, freight, insurance, landing charges, agency, interest, &c., in addition to commission, to compensate him for the risk and trouble attending the transaction, which, during the period in question—that is, when the exchanges were unfavourable, so that gold had actually to be sent across—were generally estimated at about 5½ per cent.; a premium to which extent was, therefore, necessary to reimburse the seller of the bill, and to afford him a reasonable profit. The only conclusion, however, that can, legitimately, be drawn from that fact, is merely this—that the charges attending the shipment of gold from London to Hamburgh amounted to about 5½ per cent. But the reviewer imagines differently, and the conclusion he arrives at is—"A pound of bullion in Hamburgh was, therefore, more valuable than a pound of bullion in London; for, had it been more valuable in this country than on the continent, who, in that case, would have paid a premium for transferring it from the better to the worse market?" I answer—Any solvent trader, who had a debt owing on the continent, which he

was bound to discharge; and also any continental merchant, who had a debt to receive payment of from Britain, and which he wished to get payment of in gold, an article easily introduced, rather than in manufactures or colonial produce, the introduction of which into the continent was at that time attended with great expense and great hazard. It is important to observe, that during the time when "a pound of gold paid to a banker in London would not have procured a bill upon Hamburgh for the same quantity, without the addition of a premium at the rate of 5½ per cent.," the same pound of gold paid to a banker in London would have procured a bill upon New York, not only for the same quantity, but for a quantity larger by 5½ per cent., or more.* If, therefore, the former fact afforded evidence that the currency of Britain was depreciated, the latter served equally to shew that, at the same time, it was appreciated. But, in reality, it shewed neither more nor less than this—that, as regarded New York, the exchange was favourable, while, as regarded Hamburgh, the exchange was unfavourable to Britain; and any conclusion drawn, as to the depreciation, or otherwise, of the currency of a country, from the mere fact of the foreign exchanges being favourable or unfavourable to it, must always lead to error, in as far as the two are utterly destitute of any immediate connexion with each other. This argument, accordingly, serves quite as little as its predecessors to establish the position that Bank of England notes were issued in excess, and that the high price of gold was the consequence of it.

* Bullion Report, Minutes of Evidence, p. 71.

It was also said—"It does not very clearly appear how the great foreign expenditure of this country should have raised so enormously the value of specie, since it was not with specie that it could have been discharged; but was so chiefly by drafts on the Treasury from abroad, which drafts would be finally settled by exportation of British manufactures."*

Now, though it is quite credible that it should not to the reviewer, who seems to have had but a very limited acquaintance with mercantile affairs, have been very apparent how a great foreign expenditure by this country should have raised the price of specie, no merchant, indeed, I would say, no person whatever of ordinary intelligence, whose mind was not blinded by preconceived notions, could have any difficulty in seeing that when, through government expenditure abroad, the closing against our trade of almost all the markets of the continent, and other causes, the balance of payments had been so thrown against this country, that almost every guinea had been withdrawn from circulation, and sent abroad in shape of bullion, to assist in the adjustment of this balance; and when, after the supply originally afforded by a metallic circulation had become utterly exhausted, the balance of trade with the continent again became unfavourable, so that the only source from which gold could be obtained for its adjustment was in the limited imports of it from the West Indies and North America, with which countries the exchanges, fortunately, continued in favour of Great Britain,—the natural and inevitable consequence was, that the demand for gold for shipment to the

* *Edinburgh Review*, February, 1816.

continent, in payment of debts owing, being very great, while the stock from which alone that demand could be supplied was limited in amount, and held in few hands, the price of that metal should have risen greatly; and the fact that, under such circumstances, it did rise, affords no confirmation to the opinion that its rise was in any way the consequence of excessive issues of bank-notes in this country.

The Bullion Committee of 1810 seem to have been strongly impressed with the notion that the rise in the price of gold, estimated in British money, was the result, not of unusual demand for that metal, but solely of depreciation in the currency; and finding that all the parties of practical observation examined before them were as strongly convinced of the fallacy of that notion, they seem to have exerted all their ingenuity in discovering arguments which should appear to confirm their peculiar views; and the arguments so given in their report I will now briefly enumerate:—

The committee reported that it did "not appear that during the period when the price of gold bullion was rising here, as valued in our paper, there was any corresponding rise in the price of gold bullion in the market of the continent, as valued in their respective currencies;"* and to any one acquainted with the nature of exchange operations, it would have been a very remarkable thing, indeed, if there had. All merchants know that (except in times of panic, when specie is required for the sake

* Bullion Report, page 5.

of hoarding), gold is never extensively in demand except when it is needed for transmission to foreign countries, which they also know it never can be, except under an unfavourable exchange—that is, when the balance of payments is against the country where the demand exists, and in favour of the country to which the gold is remitted.

That such is the fact, may be rendered obvious to any one, how little soever his practical acquaintance with business may be, who will simply bear in mind that so long as the balance of payments between two countries remains equal—that is, so long as each country has an amount to remit to the other equal to the amount which the other has to remit to it—the exchange between the two countries is in the state designated by merchants as being "at par;" by which is meant, that an ounce of gold in either of the countries will serve to purchase a bill which will give its holder the command of an ounce of gold in the other country; under which circumstances there can be no such thing as shipping gold from one of these countries to the other. This, I think, must appear self-evident to every one; for the conveying gold from one country to another must always be attended with more or less expense; and though that expense may not exceed say even two per cent., no man in his sound mind would ever think of losing two per cent. by sending gold—that is, no man would ever send gold from one country to another when he knew that for every hundred ounces sent he should, after defraying charges, have only ninety-eight ounces available in that other country; knowing, at same time, that without trouble (and it is

of course presumed without risk) he could sell his gold for a bill, which, for every hundred ounces paid, would give him the command of one hundred ounces in the other country, in place of ninety-eight ounces, as formerly; and, besides, the shipment of gold from one of two countries, so situated, to the other, would also necessitate the shipment of gold from the other country to it. Thus—suppose that the merchants of "Island A" are indebted to certain merchants of "Island B" to extent of 100,000 ounces of gold, and that those merchants of "Island B" are indebted to certain merchants of "Island A" to extent also of 100,000 ounces of gold, it is plain that the debts of all parties may be discharged by means of bills, or simple orders. The merchants of "Island A," who have money to remit to "Island B," will apply to those who have money owing them in that island. The latter will draw bills on their debtors in that island, which they will sell to those who have remittances to make to, and debts to discharge in it. These bills will then be sent to "Island B," and the consequence will be, that the debts of the one island to the other will be discharged without the transmission of gold, and by the simple handing over of money from the debtor merchants to the creditor merchants of "Island A," and from the debtor merchants to the creditor merchants of "Island B." It will further be observed, that if, under such circumstances, any debtor in the one island should, by any possibility, discharge his debt to his creditor in the other island by actually sending gold to it, his so doing would destroy the equilibrium, turn the balance of trade against the other island, and necessitate

the transmission of gold from it to the former island: so that, when the trade of two countries with each other is balanced, and their exchanges are, consequently, at par, the sending of gold from one to the other is about the most unlikely event that could happen; and if gold were to be sent from one to the other, it could only be (the balance of trade between the two not being otherwise affected) to be sent back again, or to stand in the place of other gold that had been sent to the island it came from. And yet, self-evident as this does appear, that such is the case seems to have been overlooked by the Bullion Committee; and a writer on the subject, of high authority, has actually asserted that the balance of trade and the exchanges were in favour of Great Britain during the very periods of the bank restriction act, when her circulation was being drained of bullion, for transmission to the continent!

It appears, accordingly, almost an impossibility that gold can be rising in price in the country which is being drained of it, and be, at the same time, rising in price in the country into which that drain is made to flow. We may, therefore, reasonably presume, that the rise in the price of gold, which took place in this country at various dates during the period in question, would be accompanied by a fall in its price in those countries into which the gold chiefly found its way; and if such fall was not observed, or if it did not tend to promote speculation, and so raise prices of commodities in those countries, it must have been owing to the want of speculative enterprise among the people, or to the unusual demand for gold over the continent, to supply the military chests of the bel-

ligerent powers; and also, doubtless, to the unsettled state of most of the countries there, inducing hoarding, and the withdrawal of the precious metals from circulation.

The committee point to the fact, that during the seven years' war, and the American war, no want of bullion was felt in this country, and that for twenty-four years immediately prior to the bank suspension, the price of standard gold in bars was never, for any length of time, materially above the mint price.* But they overlooked the reason, which was, simply, that during these several periods the trade of the country was not interrupted, as it was under the operation of the Berlin and Milan decrees, and that the balance of trade or payments was not then against it, as it was during the latter period.

They next go on to observe, that the evidence that had been laid before them had led them to entertain much doubt of the alleged fact that a scarcity of gold bullion had been recently experienced in this country;† the evidence in question being that of one dealer in gold, who spoke much of the scarcity of it, but, at the same time, acknowledged that he had found no difficulty in getting any quantity he wanted if he was willing to pay for it the price demanded,—an admission, however, which hardly seems to warrant the conclusion that there was no scarcity of the article. With equal propriety may it be said that there has been no scarcity of grain in this country during the present year, no one with money in his pocket having experienced any difficulty in

* Bullion Report, page 7. † Ibid., page 9.

obtaining what he wanted of it; and that, accordingly, the high price which has prevailed can only be ascribed to a depreciated currency. Few can fail to see the folly of this argument; and yet it is not a bit more unsound than the one just quoted, by which the Bullion Committee sought to prove that the issues of the Bank of England had been to such extent as to cause great depreciation in the value of their notes.

Finally, they observe, "that the rise in the market price of silver in this country, which has nearly corresponded to that of the market price of gold, cannot in any degree be ascribed to a scarcity of silver,—the importations of late years having been unusually large, while the usual drain for India and China has been stopped."* Was there, then, an accumulation of the stock of silver? By no means. If there had been, its price would not have been high. But there was no accumulation,—at least during the time when its price was high; simply because there was a great demand for it, it being equally available with gold for the discharge of the balance of payments owing by this country to the continent.

Many very intellegent merchants had been examined before the committee, all of whom seem to have endeavoured to explain to them that the presence of an unfavourable exchange, and the consequent export of the precious metals, could not possibly result from any other cause than an unfavourable balance of trade or payments. They do not, however, appear to have succeeded in this; and, accordingly, the committee, with the view of proving that

* Bullion Report, page 10.

such could not be the cause of the unfavourable exchange and consequent export of gold, enlisted the services of the Inspector General of Customs, who shewed, apparently to their entire satisfaction, that so far from the balance of trade having been against the United Kingdom, it had actually been in its favour, to such extent that, during the years 1805 to 1809, in place of having to send gold to foreign countries, it was entitled to receive from these foreign countries gold to the extent of nearly thirty-seven millions sterling, and this, too, after defraying all government expenditure abroad! It may be asked, how then it should have come to pass that in place of gold to extent of thirty-seven millions flowing immediately into Britain, nearly all the gold in that country should have flowed out of it; and the answer implied in the report is, that it was all owing to the excessive issues of Bank of England notes! though they have not deemed it necessary to explain the exact mode of operation.

Had their investigation extended a little further back, and embraced a wider range, they would have discovered that custom-house reports of exports and imports were very unsafe guides; as, by reference to documents that had been laid before Parliament, it would have been seen that between the years 1700 and 1800 the total declared value of the exports from the United Kingdom exceeded the declared value of the imports by no less a sum than three hundred and forty-eight millions sterling,—gold and silver to which amount should, according to their notions, have been imported into this country in payment of the balance, and should have been in

existence in this country in beginning of the present century. The difference between that and the real state of matters was sufficient to shew how little worthy of dependence such documents were in these days; and the experience of any one who has had opportunity of observing how they have been prepared in more recent times, must equally have served to satisfy him that, for any purpose requiring a near approach to accuracy, the statements of exports published by the custom-house are altogether valueless: not from any want of capacity on the part of the officials, but from the inaccurate information on which their statements are based. Such, at least, I know to have been the case twenty or twenty-five years since, when I had occasion frequently to inspect Liverpool custom-house manifests; and the comparison of their entries, with the actual description of the shipments enumerated in them, shewed that the particular kind of goods stated as contained in packages of any given mark, were at least as often wrong as right, and that plain cottons were put in place of printed cottons, cotton yarn in place of canvas, woollens in place of linens, &c., in utter confusion; the values put upon them being equally erroneous, the entries being passed at the custom-house chiefly by young men, who seemed to consider it as quite unimportant whether the description of the contents of any series of packages was correct or not. Such evidence must, therefore, be held as altogether insufficient to overturn the dictates of reason, which clearly shew that no excess of issues of bank-notes can have any effect in causing an export of gold, unless the exchanges be at the time unfavourable to the

country where they have taken place, though that excessive issues of bank-notes, by exciting speculation, have a tendency to raise prices, and lead to an unfavourable balance of trade, is denied by very few.

The committee believed that the rise in the price of gold was the immediate result of the increase in the issues of the Bank of England; and some who have treated of the subject since then, have spoken of it as a matter beyond question, that a uniform proportion existed between the increase of their issues and its price. How far this theory is borne out by facts, may be inferred from the following:—

During the latter part, and for some time after the close of the American war, during the years 1781, 1782, and 1783, the price of foreign gold rose from £3, 17s. 6d. to £4, 2s. 3d. per ounce, and the price of dollars from 5s. 4½d. to 5s. 11¼d. per ounce, while the Bank of England notes in circulation were reduced between March, 1782, and September, 1782, from £9,160,000 to £5,995,000, being a diminution of more than one-third, and continued (with occasional variations) at such reduced rate until December, 1784; and the price of gold fell to £3, 17s. 6d., and of dollars to 5s. 1½d. per ounce, by 25th February, 1787, the amount of bank-notes in circulation being then increased to £8,688,000, shewing that the price of gold depended in no degree on the extent of the bank's issues, but was regulated solely by the demand for it, that again being regulated by the state of the foreign exchanges.

In end of the year 1800, the price in London of gold, legally exportable, was £4, 6s. per ounce, the

circulation of Bank of England notes being then £16,844,000; while in 1805, the circulation of the Bank of England having increased to £17,871,000, the price of gold fell to £4 per ounce, and would have fallen still lower had not the directors of the Bank of England bought up at that price all that came into the market,—they being, from 1805 to 1808, the only buyers; the reason of the high price in the one case being, that the exchanges were unfavourable, and gold, consequently, was in demand; and of the low price in the other case, that the exchanges were favourable, and gold, consequently, was not in demand. On 31st August, 1807, the amount of Bank of England notes in circulation being £19,678,360, the price of gold was £4 per ounce. By 31st August, 1808, the bank's circulation had diminished to £17,111,290, and in face of this diminution, the price of gold rose to £4, 10s. per ounce.

In beginning of 1809, the exchanges being unfavourable, the price of gold rose to £4, 11s. per ounce, the circulation of the Bank of England being then £18,543,000; while in end of 1810, the circulation of the Bank of England having increased to £24,446,175, the price fell to £4, 4s. 6d. per ounce, because the foreign exchanges had become favourable.

In end of 1813, the exchanges being unfavourable, the price of gold was £5, 10s. per ounce, the circulation of Bank of England notes being £24,107,445; while in August, 1814, the circulation of the Bank of England having increased to £28,417,795, the price fell to £4, 4s. per ounce, as before, because the foreign exchanges had become favourable,—their having

become favourable being again the consequence of a return of peace in May, 1814. But no sooner did intelligence reach this country, as it did in March, 1815, of the landing of Napoleon in France, than the price of gold rose at a bound to £5, 6s. per ounce, the exchange falling in a similar proportion. Without any change in other respects, the currency, according to the notions of the political economists, became at once depreciated, and so continued till the battle of Waterloo restored peace to Europe, when the *depreciation* immediately ceased, the exchanges rose, and gold fell to £3, 18s. 6d. per ounce, the issues of the Bank of England having increased from £24,801,000 on 28th February, 1814, to £27,248,670 on 31st August, 1815.

These facts do not prove that the price of gold rose as the Bank of England's issues increased, and fell as they diminished; but they shew that it rose and fell without the slightest reference to these issues, —the real cause of its fluctuations being evidently the balance of trade, or payments, between this and foreign countries.

From the detail now given of the arguments made use of to prove that the high price of gold during the period of the bank restriction was not the consequence of unusual demand, I think it must appear to every unprejudiced mind that they are of a singularly inconclusive character; that they indicate a very remarkable confusion of ideas, and an ignorance of the principles which regulate the exchangeable value of commodities, truly wonderful in a commercial country; that whatever the cause of that high price may have been, the arguments in question throw

very little light upon it; and that there seems very strong reason for believing that the occasional high price of gold was as really the result of a change in the relation between the demand and the supply, as Mr Tooke has shewn to have been the case with the occasional high prices of other commodities.

As regards the general management of the issues of the Bank of England during the period under review, there seems to have been a singular want of harmony between the views of the Bullion Committee and those of the bank directors who were examined before them,—the former appearing to have had little respect for the lessons of experience, while the latter professed to be guided by them entirely. They agreed in thinking that to attract gold to this country was a thing of vital importance, but they differed entirely as to the means to be used for that end.

The Bullion Committee considered that the bank directors should have regulated the extent of their business exactly as the exchanges might happen to be favourable or unfavourable; that they should have enlarged their discounts when they were favourable, and confidence was high; and that they should have contracted their issues when they were unfavourable, and confidence low; and they considered that by so doing, the presence of the wished-for metal would be most effectually secured. The bank directors knew from experience that this was not always the surest means of attaining that object. They knew that, in 1793, when the stringent measures they

adopted to contract their circulation had utterly failed to bring back the gold that had been withdrawn from their treasury, no sooner had the government measure for advancing Exchequer Bills come into operation than gold flowed in upon them. The experience of the year 1797 taught the same lesson; and all their observation had tended to produce the conviction that there was not even the most remote connexion between the amount of the bank's circulation and the state of the foreign exchanges; and that, accordingly, a contraction of its circulation, with the view of its having any immediate influence on the exchanges, was as unpromising a step as could well be adopted.

They had seen that, in the year 1782, the circulation of the bank was reduced, in the space of six months, from £9,160,000 to £5,995,000, and that in the face of that reduction, to extent of about 30 per cent., the exchange with Hamburgh fell from 34s. 1d. to 31s. 5d., being a fall of about eight per cent.; so that £1, from being worth 34s. 1d., fell to be worth only 31s. 5d. in Hamburgh money.

They had seen that, between December, 1784, and February, 1787, the bank circulation was increased from about £6,000,000 to £8,688,000, and that in the face of that increase the exchange with Hamburgh rose from 31s. 5d. to 34s. 6d.; so that £1, from being worth only 31s. 5d., came to be worth 34s. 6d.

They had seen that, in February, 1787, the bank's circulation was £8,688,000, and that by February, 1791, it had increased to £11,699,000; in addition to which, coined gold, to extent of £10,704,000, was added to the circulation; in the

face of which increase of notes and addition of coin, the exchange with Hamburgh rose three per cent.

They had seen that, in 1795, the average circulation of Bank of England notes was about £11,497,000, and that on 25th February, 1797, it had been reduced to £8,640,000, during which period the exchange with Hamburgh fell from 36s. to 35s., being about three per cent.; and that by 1st February, 1798, it had been increased to £13,397,000, during which time the exchange rose to 38s. 2d., being about nine per cent.

They had seen that, in 1801, the average circulation of Bank of England notes was £16,169,550, which by 1805 had been steadily increased to £17,871,000, and that, in the face of that increase, the exchange with Hamburgh rose from 29s. 8d. to 35s. 8d., being a rise of about eighteen per cent.; so that £1, from being worth only 29s. 8d., came to be worth 35s. 8d.

And in November, 1809, the bank's circulation was about £18,000,000, which, by September, 1810, had increased to about £24,500,000, in the face of which increase of about six and a-half millions, or thirty per cent., the exchange with Hamburgh rose from 28s. 6d. to 31s. 9d.; so that, in place of being less valuable, through the increased issues of the bank, the currency of that country had, to adopt their phraseology, become more valuable,—£1, worth, during the time of extended circulation, only 28s. 6d., having, after the circulation had been increased thirty per cent., come to be worth 31s. 9d. in Hamburgh money.

Such an unvarying discrepancy between the amount of the bank's issues and the rise and fall

of the foreign exchanges, was sufficient to satisfy the bank directors of the utterly erroneous character of the theory of the Bullion Committee, which traced all variations in the exchanges to corresponding variations in the currency; and, besides, no one capable of considering the matter with an unprejudiced mind, could fail to see that the balance of trade and payments was the sole regulator of the exchanges. But the balance of trade being against a country does not necessarily imply that its imports have been greater than its exports. It only shews that the amount it has to pay to foreign countries is greater than the amount it has to receive from them; and it makes no difference as regards the exchanges, whether that arises from its having imported more largely than it has exported, or whether the proceeds of the goods sent abroad have been allowed to remain abroad, by being invested in foreign securities, or by being lent to foreign merchants or agriculturists, or by being used for defraying government expenses, or subsidising foreign powers. All this, however, the Bullion Committee were unable to see,—their views on the subject of exchange having been singularly vague. They seem actually to have imagined that an unfavourable balance of trade could be adjusted by bills as well as by bullion, and to have received with implicit faith the evidence of two of the witnesses they examined, to the effect that gold was brought from the West Indies solely because it was more advantageous to import it than bills, and that it was dear in this country, only because it was more profitable to export it than bills—forgetting that bills must represent something, and that if the witnesses in question

had made their remittances in bills, some one else must have remitted bullion to provide for payment of them, and the extra profit made by sending bullion rather than bills, consisted simply of the profit which the party from whom they might have bought bills would have required to remunerate him for the trouble of drawing them and remitting bullion to meet them.

That the "coming and going of [gold] depends wholly on the balance of trade,"* was correctly remarked by Mr Locke; but with reference to this passage, Mr Henry Thornton, a member of the Bullion Committee, apparently in exact accordance with the principles entertained by them, comments as follows:—"The error which I consider as encouraged and supported by this passage of Mr Locke, (and much similar language is to be found in other writers,) is this—the passage implies that it is the comparative state of our exports and imports which regulates the exchange, and not at all the state of the exchange which regulates the comparative state of our exports and imports. It leads us to suppose that an unfavourable balance of trade, (that is, the excess of the goods imported above those exported,) is exclusively the cause, and that the bad state of the exchanges is altogether the effect;"†—a supposition as to the soundness of which, though he thought it an error, no intelligent merchant can feel the slightest doubt. He then proceeds to observe that, "when persons

* "Further Considerations concerning Raising the Value of Money."

† "An Inquiry into the Nature and Effects of the Paper Credit of Great Britain." By Henry Thornton, Esq. London, 1802, p. 275.

abroad, wishing to sell bills on England, are more numerous than those who are disposed to buy them," [that is, when the bills on London offering for negotiation or sale are in excess of the demand,] "the price of bills must drop; and it must continue to fall, until it becomes so low as to tempt some individuals to become purchasers of them." But here Mr Thornton seems entirely to have lost sight of the fact, that the existence of an excess of bills on England necessarily pre-supposes the existence of a balance of trade against her; and that the reason why there came to be more sellers than buyers of bills on England is—not that her currency is either depreciated or redundant, but—that she has sent to the foreign country a smaller value of goods than she has received, or is about to receive from it; or, if she has sent a larger value, then that part of the proceeds has been allowed to remain abroad, for investment in foreign securities, or in loans to private individuals, or in defraying the foreign expenditure of government, or of absentees, or in subsidies to foreign powers; and that she has to pay to that country the difference between the amount, or the balance of the amount, payable to her for her exports, and the amount payable by her for her imports; or, in other words, that the exchange is against her. If the markets of that country are in want of British goods, the unfavourable exchange will encourage their export; but if not, then gold will go to adjust the balance. He says the price of the bills "must continue to fall, until it becomes so low as to tempt some individuals to become purchasers of them;" and the least fall that can tempt

individuals to become purchasers of them, will be a fall to a point at which the premium will serve to cover the expense of sending gold from London to the country in question. Thus, when one hundred ounces of gold in Hamburgh will purchase a bill on London for a sum which will give its holder there the command of one hundred and four ounces of gold, which, after defraying freight, insurance, interest, and other charges attending its transmission to Hamburgh, would leave one hundred and one (or, it might be, even one hundred and a-quarter) ounces, delivered in that city, then the profit of one per cent. (or one-quarter per cent.) might afford sufficient inducement to some one to buy the bills, and bring back gold to cover the advance made in the purchase. But Mr Thornton, and the other members of the Bullion Committee, seem entirely to have forgotten that such things cannot be unless the exchange is unfavourable; that is, the balance of trade must be against Britain, before the bills drawn upon that country *can* be in excess of the amount to be remitted to her. No amount of depreciation in her currency will have any effect in causing bills to be drawn upon her, so long as the balance of trade is in her favour.

I have just said that the *least* fall that can tempt parties to become purchasers of the bills in question, is a fall to a point at which the premium is sufficient to cover the expense of importing gold from London to the place where the bills are presumed to be bought. This must be understood with some limitation—first, as to the purchasers, who are meant to be those who have no remittances to make, and who

buy the bills only for the sake of the profit to be made, through the extra quantity of gold to be obtained from them, as compared with what is paid for them; and, second, as regards the proportion of bills offering for sale, as compared with the demand for them, which will determine whether a less fall than that spoken of may not be sufficient to induce purchases. I have presumed that bills are offering for sale, without any co-existing demand,—that being the only condition under which a less fall cannot be sufficient to induce purchases. But if the demand for bills on London be to an extent approaching in any degree to the amount of bills offering for sale, then a premium equal only to a very small part of what would serve to convey gold from London to Hamburgh may be quite sufficient to induce parties in the latter city to buy the bills offering, and in their capacity of bill merchants to make profit on the transaction. Thus, let us suppose that, at any given time, there are parties in Hamburgh offering for sale bills on London to the extent of £100,000, while the whole amount owing by other Hamburgh merchants to London, and which they are under obligation to remit to that city, is only £90,000, then, to adjust the balance of debt, gold to the value of £10,000 only will require to be conveyed from London to Hamburgh. If we assume that one per cent., or £100, will cover the expense of so conveying it, then a premium of one-tenth per cent. on the whole bills offering for sale (one-tenth per cent. on £100,000 being £100) would be sufficient to compensate the purchaser of them, supposing them all to be sold to one merchant, for the charges incurred in bringing

across the £10,000 required to adjust the balance between the two countries, and all the premium he obtained for cashing them, beyond one-tenth per cent., would be gain to him — the meaning of the term "cashing them," being the giving in exchange for the bills an amount of gold equal to the amount they will serve to command in London, less the premium of exchange allowed for so doing.

There was another very simple matter connected with the subject of exchange, their ignorance of which led the Bullion Committee to most erroneous conclusions. They assumed it as a principle, that in a sound state of the currency the exchange could never fall lower than was required to cover the expense of conveying the precious metals from the one country to the other; and finding that the exchanges had in many cases fallen under that limit, they at once concluded that depreciation of the British currency must be the cause of the additional fall. Their principle was quite just, as regards bills bought or sold in the debtor country. Thus, London being indebted to Hamburgh, no one in the former city, desiring to remit money to the latter, would ever give a premium for a bill on it much in excess of what would be required to cover the expense of sending across gold. But as regards bills bought or sold in the creditor country, these principles are utterly erroneous—there being scarcely any limit to the extent to which the exchange may sink under what they fancied to be its lowest point. If we take the case of a British merchant or supercargo in Hamburgh, Pernambuco, or Shanghae, seeking to dispose of bills on London, the price or proceeds of

which he means to invest in the purchase of a cargo, it will at once be seen that the discount he may be necessitated to give to induce the purchase of his bills is in no way limited by the expense of conveying gold or silver from this country to the port at which he offers them for sale. In such a place as Hamburgh, where there are merchants of large capital, trading almost exclusively in bills, the price, except under unusual circumstances, could not (the bills being presumed to be of undoubted character) fall much below the point in question. But in the very extraordinary circumstances under which the trade of Britain in the beginning of the present century was conducted, the discount on bills on this country, sold even in the ports of the Baltic and in Hamburgh, was often far beyond the limit just spoken of, exactly as it is in the present day in more distant places. Thus, while Spanish dollars, at par, are worth only 4s. 2d. sterling, we frequently find that in China a dollar will serve for the purchase of a bill on London which will give its holder the command in Britain of 5s. or 5s. 6d., indicating a discount of 20 or 30 per cent., being nearly ten times the expense of conveying dollars from London to China. And so, during the early part of this century, British bills were frequently sold in the continental ports at prices indicating a discount much beyond what was required to cover the expense of conveying gold or silver to these ports from London. The reason why parties in China give such discount for the cashing of their bills is the very simple one, that the amount of bills offering for sale is in excess of the demand, which necessarily lowers the price, and

that their anticipations of profit from the import into the destined market of the goods or produce in which they are investing the proceeds, are such as to induce them to sell their bills at the low price at which alone they find it practicable to secure purchasers. And the reason why, fifty years since, British merchants or supercargoes, in the ports of the continent, sold bills on this country at the low prices spoken of was, in like manner, that their anticipations of profit were high, which induced them to sell at a low price, that price being depressed through the difficulties that attended their negotiation,—"many more bills having to be sold than could be taken by persons requiring to make payments in England, while the communication by letters being also very difficult and uncertain, middle-men were not to be found, as in usual times, to purchase and send such bills to England for returns: and no suit at law could be instituted in the courts of justice there against any person who chose to resist payment of a returned bill, or to dispute the charges of re-exchange."* But no one ever now imagines that the fact of bills on Baring or Brown, or, it may be, the Bank of England, being sold in China at a discount of twenty or thirty per cent., indicates depreciation in the currency of Great Britain; and equally little did the fact of bills being sold abroad during the period of the bank restriction act, at a discount less than that now quoted, afford any valid ground for suspecting that depreciation existed then either.

The report of the Bullion Committee is a production which has met with no ordinary amount of

* Bullion Report, Minutes of Evidence, page 68.

praise and of censure; but I fear the progress of sounder ideas on the subject of currency cannot fail to lessen its reputation,—exhibiting, as it does, on the part of those by whom it was sanctioned, a lamentable want of independence of judgment, and an utter surrender of intellect to the authority of the political economists. It is satisfactory, however, to think, that during the last forty-five years, the world has made some progress in the science of currency, as well as in most other branches of human knowledge; and no one can read the report issued by the committee of the House of Lords on the commercial distress of 1847, and fail to observe the more thorough comprehension of the subject evinced by the latter, as compared with the former report. The two committees may have been composed respectively of men of equal capacity and of equal sincerity in their search after truth; but they differed in this—that the more recent committee appear to have conducted their investigations without previous bias, and with minds prepared to follow wherever the facts laid before them might lead to; while the members of the former seem to have resigned their reasoning faculties to the dogmas of political economy, and to have conducted their inquiries under the conviction that they had already attained the truth, and with a determination that the evidence brought forward should be moulded in accordance therewith.

The confession of faith economical (as the report may be termed) of the Bullion Committee was a capacious one, and it would be difficult to find elsewhere, within the same compass, the enunciation of so many opinions at variance with sound reason.

They believed that the price of any article (say gold) could not be high in one country, and at the same time be low in another country, with which war had stopped its intercourse.

They believed that an article, however much its price might have risen, could not be really scarce, so long as people with money in their pockets could get all they wanted of it.

They believed that the exchange could be in favour of London and against Hamburgh, and at same time gold flow from the former to the latter city.

They believed that the prosperity of a country is to be promoted by showers of money, when mutual confidence among merchants is high, and by sudden contraction in the supplies of it when confidence is low.

They believed that an unfavourable balance of trade between two countries—the one of which had transactions with no country except the other—could be adjusted by bills as well as by bullion.

They believed that in place of the balance of trade determining the rate of exchange between two countries, the rate of exchange regulated the comparative state of imports and exports.

They believed that the fact of a British merchant in a foreign port disposing of bills on London at a discount greater than was required to cover the expense of sending gold from London to that port, afforded indubitable evidence that the currency of Great Britain was depreciated.

And we may be pardoned for supposing that, if they could have foreseen that such vagaries would thereafter be announced by political economists, they

would also have believed, with Mr James Mill, that the loss of the trade of a colony is of no importance to the merchants of the mother country, (monopoly being absent,) *because* they make *only* the ordinary profits of trade by it !* and have received with implicit faith that crowning absurdity, that unparalleled puerility of Mr David Ricardo, that one pipe of wine, of given quality, must, in the same market, and at the same time, be as valuable as two pipes of wine, of the same quality, if the one cost as much as the two ! ! †

It is difficult to read the report of the Bullion Committee without having painfully brought to one's mind the reflection, how apt men, even of superior intellect, are to fall on the quicksands of absurdity, when, casting overboard the compass of common sense, they adopt as their guiding star the *ignis fatuus* of political economy.

The bank directors had no respect for the theoretical notions of the Bullion Committee, and they,

* "If it be said that the colonies afford a market, I reply that the capital which supplies commodities for that market would still prepare commodities if the colonies were annihilated ; and these commodities would still find purchasers. There is, therefore, no advantage whatsoever derived, under freedom of competition, from that part of the trade with a colony which consists in supplying it with goods, since no more is gained by it than such ordinary profits of stock as would have been gained if no such trade had existed."—*Elements of Political Economy*. By James Mill, Esq. London, 1821.

† "As the value of all foreign goods is measured by the quantity of the produce of our land and labour which is given in exchange for them, we should have no greater value, if, by the discovery of new markets, we obtained double the quantity of foreign goods in exchange for a given quantity of ours," &c.—*Principles of Political Economy and Taxation*. By D. Ricardo, Esq. London, 1817, p. 146.

in return, seem to have had an equally low opinion of the rule by which the bank directors professed to be guided in the management of the circulation, which was, that "there could be no possible excess in the issue of Bank of England paper, so long as the advances in which it was issued were made in the discount of mercantile bills of undoubted solidity, arising out of real commercial transactions, and payable at short and fixed periods,"—a doctrine pronounced by the Bullion Committee to be "wholly erroneous in principle, and pregnant with dangerous consequences in practice."

The directors said, the "bank never forces a note into circulation, and there will not remain a note in circulation more than the immediate wants of the public require;" and, again, "the bank-notes would revert to us if there was a redundancy in circulation, as no one would pay interest for a bank-note that he did not want to make use of." They were right when they said that there would not remain *in circulation* a note more than the wants of the public required; and they were also right when they added, that no one *would* (that is, willingly) pay interest for a bank-note that he did not want to make use of.

They saw, and, as is now acknowledged by all intelligent bankers, they saw correctly, that no efforts on their part could keep *in circulation* an amount of notes greater than was rendered absolutely necessary by the amount of business to be transacted by means of them; but when they said that no one would pay interest for a bank-note that he could make no use of, they entirely overlooked the fact that, though no one *would* do so, if he could help it,

it was done, notwithstanding, to an enormous extent, —an extent indicated in a small degree by the amount of deposits constantly lying in their safe, but to a far greater, though unknown degree, by the amount of their notes lying in the safes of private banks in England, and private and joint-stock banks in Scotland, which notes were all yielding interest to the Bank of England, while they were utterly unproductive of any to the banks or private individuals by whom they were held. If the bank directors had completed their sentence by the addition of a few important words; had they said—"The bank-notes would revert to us if there was a redundancy, as no one would pay interest for a bank-note that he did not want to make use of, *when, by depositing it in the bank he would at once be relieved from the burden of paying interest for it, by receiving credit for interest upon it, at the same rate which we charged to him, whoever he may have been, to whom it was issued,*"—their doctrine would have been impregnable. But it contained no such clause. They had the pleasant conviction that the more notes they could get people to apply for, the larger would be the balance at credit of "interest account" in the bank ledger at the end of each year; and so they were quite willing to keep, without making any charge for so doing, whatever quantity of their notes the holders (unable to find employment for them) might wish to place in their safe custody. But it did not occur to them that the interests of the country might have been benefited by their allowing interest on their deposits; or if it did, the idea would at once be rejected, as one the acting on which would have interfered materially

with the enlarged dividends, which a few years' operation of the restriction act enabled them to pay to their shareholders, which, since the year 1720, had never exceeded seven per cent. per annum, but which, after the passing of the restriction act, were raised to ten per cent. per annum, (in addition to a bonus of twenty-five per cent. declared in the year 1816,) at which it continued till a return to specie payments took place; the price of bank stock having, in like manner, risen from £115, in 1797, to £288, in 1809.* In case, however, I should be accused of misrepresenting the meaning of the words made use of by the bank directors, it may be well for me to state that I believe the meaning that they desired should be attached to them was this, that those who had got notes which they could not make use of themselves, would at once throw them into the loan market, and so prevent borrowers from applying to the bank; and that if they did not do so, but, on the contrary, deposited them in the bank, there to lie without interest, it was to be assumed that that was the way in which they deemed it best to employ them. All, however, that the fact of their depositing them there really shewed was merely this, that, from over caution, or some other reason, they were not disposed to hazard their money by placing it in the description of securities they could obtain; but this did not make it a just or proper thing that the Bank of England should increase its profit, by deriving interest from an amount of notes in excess of what was required to supply the necessary circulation of the country. They forgot, too,

* Francis's "History of the Bank of England."

that only a small part of their issues was made in discounting mercantile bills, and that by far the largest portion of them was made in loans to government, and in payment of dividends due on government debt: but the real defect of the system which prevailed then, as of that which still prevails, was, the entire absence of absorbing power; and had that been present, the circulation would have continued free from redundancy and free from depreciation, whether the bills on which their notes were advanced were bills of "undoubted solidity," or of the most aërial character, and whether they were payable at short dates, or at the Greek Kalends. In so far as the probabilities of payment, and consequent banking profits, were at stake, the solidity of the bills, and the shortness of their dates, were most essential considerations; but in so far as the mere currency was concerned, they were utterly unimportant; and I have, accordingly, no hesitation in affirming, that, under a properly regulated currency system—that is, a system which should regard money only as the instrument of exchange, which should provide it only in so far as necessary for the due discharge of that function, and which should so arrange that, whenever it ceased to be required for that, it should at once return to the source from which it issued, that instant ceasing to be a subject of loss to one, or profit to another—depreciation would be impossible; and, due allowance being made for the effects resulting from changes in the relation between supply and demand, prices would remain for ever unaltered.

It may be supposed by some that injudicious application of capital to speculative purposes might

have the effect of permanently raising prices of the commodities on which it was expended. No more complete delusion ever existed. Monopoly may permanently raise prices to any extent, but speculation, without monopoly, never can. Speculation may raise them for a time, but the extent to which they may be advanced, so long as it continues, will be exactly balanced by the fall which succeeds its collapse, and the average price will be exactly that which would have been the average price had it never existed—that is, high if the supply is exceeded by the demand, low if the demand is exceeded by the supply. The relative prices of all things are regulated by that unchangeable law of nature, shortly called "The law of supply and demand." Prices may be raised by speculation, but in so far as their rise is caused by speculation, in exactly the same degree will their subsequent fall be caused by it. The principle of supply and demand is that which, in the long run, regulates the prices of all commodities; and I believe there is nothing of the truth of which we may feel more fully assured than this, that the average price of any article, not the subject of monopoly, during a series of years, cannot be in any way affected by speculation being directed to it. If speculation raises the price, it will check the consumption, and encourage increased production, stocks will accumulate, the speculation will fail, and the heavy stock will induce the acceptance of lower prices; so that, in the end, a given amount of the article will have exchanged for neither more nor less of money, or other commodities, than it would have exchanged for if no one had

ever bought, at one time, more than one month's supply of his consumption of it.

In conclusion, we have seen that, during the period embraced in the continuance of the bank restriction act, the currency was, as held by Mr Tooke, always (after the first few years), to a greater or less extent, depreciated, *if gold be taken as the standard;* but if gold be not taken as the standard, and it was not generally looked to as the standard during the period in question, nor does there seem any good reason why it should be looked to as having been such, then there is nothing to lead to the conclusion that any depreciation of the currency existed.

If the inquiry be, "Was the currency depreciated with regard to what it was (that is, were prices in general higher than they were), for ten or for twenty years before the restriction act came into operation?" I think the answer we should be warranted in giving would be, that it was not, and that if some articles were, on an average, higher during the one period than the other, it was the result of change in the relation between supply and demand, other articles being as much lower. But if the inquiry be, "Was the currency depreciated, that is, were prices higher than they would have been, had the government of Great Britain made the insane attempt to maintain a convertible currency?" then I think the answer is equally evident, that during a considerable part of the period in question they were very much higher than they could have been under a system of convertible notes, and

that such system could not by possibility have been maintained without such contraction, during the time when the exchanges were unfavourable, as would have reduced prices of everything to one-half or one-fourth of what they were under the system actually adopted.

I have, in course of the foregoing observations, alluded to the extreme vagueness of meaning attaching to the expression, "depreciation of currency," as generally used; and I have now to add to what I said before, that I am inclined to question altogether the accuracy of the phrase, and to propose for consideration whether the word "depreciation" can properly be used with reference to any currency which has for a long series of years consisted chiefly of money issued by banks on loan to parties giving security for its repayment, and paying interest for the loan of it. Where money is created by government, and issued by it, not on loan, but in payment of the wages of its servants, or of the commodities required in the carrying on its operations, then it is manifest that depreciation may ensue, and that the only limit to that depreciation will be the extent to which the issues may be carried, the depreciation of the currency and consequent rise in prices of commodities being in exact accordance with what was laid down in the beginning of Chapter II., where an illustration was given of the effects of an addition to the currency of an imaginary island, in which the practice of lending at interest was unknown. But when all, or nearly all, the currency of the country is issued by banks to borrowers on loan, and has continued during a long series of years to be so

issued, then I am pretty much inclined to believe that it is no longer liable to depreciation; that an expansion of it is no longer capable of affecting prices of commodities, except in so far as it may stimulate speculation, and so lead, indirectly, to their advance; and that, in fact, it has come to be an "arbitrary scale of equal parts, invented for measuring the respective value of things vendible, . . . performing the same office with regard to the value of things that degrees, minutes, seconds, &c., do with regard to angles; or as scales do to geographical maps, or to plans of any kind;"* or, in other words, that it has become *almost* a scientific currency, and requires nothing more to render it *altogether* such, than the addition of a simple provision for the absorption of all superfluous issues, the operation of which would have the effect of guarding against the possibility of redundancy.

A general notion that such was the character of the currency seems to have prevailed extensively in this country during the period in question; and if the view I have now expressed be, as I confidently believe it is, a correct one, then it would appear that the currency had *very nearly* arrived at the highest perfection which any currency system can aim at, that is, a currency without value and without a standard, which should answer all the purposes of money, and yet allow the prices of all commodities to rise or fall exactly as they would do under a system of pure barter—a currency which should never be deficient and never be abundant, but should maintain one uniform and unvarying relation to the ex-

* Sir James Stewart's Political Works, vol. ii., pp. 270, 271.

tent of duties it had to discharge. But it had only *very nearly* arrived at this point; and the small want—namely, that of an absorbing apparatus—was so essential to its efficiency, as to constitute nearly the whole difference between what I believe to be the most perfect system of currency that can exist, and what was about as imperfect a currency system as the world ever saw, till the progress of time brought into being the currency bill of eighteen hundred and forty-four.

1819 TO 1855.

The opposition* shewn to the currency bill of 1819 was chiefly inspired by the notion that it would make money scarce, and cause prices to maintain a lower range than formerly,—a notion supposed, for the time, to derive confirmation from the low prices of grain which prevailed during the years 1821 and 1822. But the real cause of these low prices was the abundance of the harvests; and the gamblers, who feared that the new currency system would prevent that superabundance of money which had so often, before, infused life into their speculations, were destined soon to have their evil forebodings removed, and to discover that the new system was still better fitted than the one that existed before it for the carrying out of their schemes, being more liable to change from scarcity to abundance, and from abundance to scarcity; and thus better adapted for bringing about those fluctuations in prices which, it has

* *Supra*, p. 169.

been well observed, are "always advantageous to the knowing man." *

With the view of carrying through arrangements for reduction of the interest on part of the national debt, government, in the year 1822, prevailed on the directors of the Bank of England to reduce their rate of discount on bills from five per cent., which had been, previously, their lowest as well as their highest rate, to four per cent.,—the immediate consequence of which was, to create a spirit of speculation, and to cause such an advance in the prices of all securities, that the five per cent. annuities rose to from six to eight per cent. above par, and the Chancellor of the Exchequer was enabled to effect a reduction to four per cent. interest on £140,000,000 of that stock, with a saving to the nation of £1,122,000 per annum. And in 1824, he was enabled to effect a further saving of £380,000 per annum by the conversion of £76,000,000 of four per cent. into three and a-half per cent. annuities. The reduction caused, no doubt, much distress and great dissatisfaction,—many of the holders of stock demanding payment for it, rather than submit to the reduced interest offered; and to meet their demands, the Bank of England made advances to government to extent of about £5,000,000. Parties whose means had, to a large extent, been invested in the public securities, were now, by having their money returned to them by government, left with considerable sums unemployed, and open to any investment which promised a return better than was obtainable from the securi-

* Samuel Gurney, Esq., Minutes of Evidence, No. 1324. Lords' Report on Commercial Distress, 1848.

ties they lately held. This, of course, tended much to produce a state of feeling favourable to schemes of speculation, which was still further promoted by the proceedings of the Bank of England, who, with the view of getting their notes more extensively into circulation, offered to borrowers facilities previously unknown in their practice,—money being lent on mortgage of land, and on deposit of stock, as well as on commercial bills; while they still further increased the abundance of money by issuing a large amount in the purchase of the dead-weight annuity.

In the year 1822 an act of Parliament was passed extending till 1833 the privilege of the country banks in England of circulating notes under £5, which, through the additional means it placed at the command of these banks, must, doubtless, have tended still further to encourage the speculative excitement which then, and for some time after, prevailed in a degree unparalleled since the time of the South Sea bubble, about a hundred years before. Speculations of all kinds were encouraged. No scheme, however baseless, that promised large dividends, failed to secure victims; but those that stood highest in general estimation were companies designed to work the silver mines of Mexico and Peru, and loans to the governments of the newly-established South American Republics, whose independence of Spain had shortly before been recognised by Great Britain. From 1822 till 1825 twenty-six foreign loans were negotiated, for a sum amounting in all to more than thirty millions sterling; and the nominal capital of mining and other companies, established during the same time, exceeded four hundred mil-

lions. So abundant was money, that, during the whole of 1824, and the first five months of 1825, commercial bills were discounted at the low rate, till then unprecedented, of three and a-half per cent.* The condition of the country was one of great apparent prosperity; and, in speeches from the throne, and addresses from the Houses of Lords and Commons, it formed the theme of unvarying congratulation. The exports of 1823 had been on a scale of unequalled magnitude; but those of 1824 were still greater, and the Chancellor of the Exchequer, in commenting in the House of Commons on that fact, and on the evidence which *he fancied* it afforded of the general welfare of the mercantile community, added, triumphantly, that they might "safely venture to contemplate with instructive admiration the harmony of its proportions, and *the solidity of its basis*,"—resulting, as he conceived it to do, from the admirable currency arrangements of the two preceding years.

But early in 1825 symptoms of an approaching end to this prosperity began to manifest themselves. Foreign markets were glutted with British manufactures; alarm began to prevail; orders were sent abroad to realise; goods were forced off at fearful sacrifices; and, large as the exports had been, they were not sufficient, or, at least, were not realised in sufficient time, to enable them to afford the means of fulfilling the various contracts with foreign governments, foreign mining companies, &c., requiring payments to be made abroad; gold had to be sent to supply the deficiency; and, between April, 1825,

* Lords' Report, 1848. Appendix (C.)

and November of the same year, the stock in the Bank of England was reduced from about ten millions to an amount variously estimated at from £500 to a million and a quarter. Alarmed at this drain, the directors of the Bank of England suddenly diminished the circulation to extent of about £3,500,000. A feeling of terror was at once produced. As is always the case when panic is abroad, money circulated slowly, tending still further to increase the scarcity caused by the proceedings of the bank. Bank-notes were not to be obtained, even on the highest security; commercial distress prevailed with an intensity surpassing even that of 1793 or 1797; merchants of admitted wealth were compelled to sacrifice their property as the only means of raising money to enable them to meet their current obligations; and one firm in London, possessing upwards of half a million of undoubted securities, was obliged to announce its inability to meet its creditors.

On the 12th of December, 1825, the banking-house of Sir Peter Pole & Co., who conducted the agency, in the metropolis, of forty-four country banks, suspended payment. Many of the banks they represented were so closely connected with them, that their fall was thought inevitable. Confidence in almost all the banks throughout England became impaired. Runs were made upon them in every quarter, and in the short space of six weeks seventy of their number declared themselves unable to discharge their liabilities.

The stock of gold in the Bank of England had become so reduced as to render it no longer matter of doubt, that if the run continued for a few days

more, its payments must have been suspended; the gold being required by the country banks for payment of the £1 notes, which then formed a considerable portion of the circulation of England. Under these circumstances, an increase of their issues, so as to restore confidence, or an almost certain suspension of payments by the bank, were the only alternatives. The directors preferred the former; and at once abandoning the system of limitation on which they had for some time been acting, lent money on almost every description of property offered, and discounted bills, regardless of the strict rules by which, in ordinary times, this department of their business had been guided. Between 3d and 29th December, the amount of mercantile paper under discount in the bank was increased from four to fifteen millions,—the number of bills discounted on one particular day having been not less than four thousand two hundred; and the amount of Bank of England notes in the hands of the public was increased from seventeen million four hundred and seventy-seven thousand pounds at the former, to twenty-five million seven hundred thousand pounds at the latter date. A restoration of confidence, and a check to the run for gold, was the immediate result,—the run for gold being still further checked by the fortunate, and apparently accidental discovery, that a box, containing one-pound notes of the Bank of England, still existed on its premises. The demand for gold having been one not for the supply of foreign wants, but to enable the country bankers to meet the payment of their small-note circulation, it immediately occurred to

the directors that the public might be disposed to take them in place of sovereigns. The government gave its sanction to the issue of these notes, which were accordingly at once sent forth, and found to satisfy the wants of those demanding payment of the local bank-notes as well as gold would have done. Within one week of their issue the panic ceased; and out of seventy-three banks which had failed within the compass of a month, ten were enabled to resume payments,—their suspension having arisen, not from want of capital, but altogether from the mere scarcity of what the law recognised as money. Gold, which, during the continuance of the panic, had been extensively hoarded, now left its hiding-places. The exchanges—to the surprise of those theorists who imagined that their being favourable or unfavourable depended on the quantity of Bank of England notes in circulation, and who thus expected that the enlarged issues of that establishment would prevent its return—became favourable to this country. Gold came to the bank from the interior of England and from abroad; and whereas the stock in their treasury in December, 1825, was only a very few thousand pounds,* if even so much, the amount of their notes in circulation being at same time only about £17,500,000, by February, 1826, the former had increased to £10,000,000, while the latter had also increased to £24,900,000.

Soon after this crisis had passed over, a parliamentary committee was appointed to make inquiry

* Mr Gurney believed that it was actually reduced to about £500 or £600; and it is a well-known fact that the bank was unable to cash notes, to amount of £16,000, presented by a city banker.—See Minutes of Evidence, § 2675. Lords' Report of 1848.

into the circumstances that had led to the speculative excitement of which it was the consequence, and a large share of the blame was thrown on the shoulders of the country banks of England, who were accused of having given an undue impetus to speculation, by means of excessive issues, especially of small notes.

The number of these banks who were compelled to suspend payment in 1825 and 1826 (during which time not one bank in Scotland failed) proves beyond question, that the management of many of them must have been distinguished by extreme want of caution; and the probability is, that they aided in promoting speculation, as far as the use of their own capital, combined with the increase of the privilege of issuing paper money, and the injudicious employment of their deposits, put it in their power to do so: the last of these three—namely, the injudicious employment of their deposits—being, however, the real rock on which they were shipwrecked. It was generally supposed, even so lately as 1826, that the privilege of issuing paper money was one that could be rendered available to a great extent; but the progress of more enlightened views on the subject of banking and currency has served to convince, at least all men of practical observation, that the power thus conferred on any bank of promoting speculation or raising prices, is extremely limited—that no effort of those possessing it can be in the slightest degree effectual in increasing the circulation of the country—and that the blunder which the banks that fell were truly guilty of, and which led to their downfall, was (as had been the case with their companions in misfortune in 1793, 1810, and 1814 to 1816),

not that of issuing too many bank-notes, but that of trading, to an imprudent extent, on the money of their depositors;—the effect of their so overtrading being, unquestionably, to give an undue impetus to speculation among the merchants who drew supplies of money from them, and who, when the crisis came, held, invested in unsaleable stocks, the money that the banks required to answer the demands of their depositors.

But the cause which most powerfully operated in starting the speculation of this period, was the reduction by the Bank of England of her rate of discount from five to four per cent., combined with the increased facilities of borrowing afforded by that institution,—the superabundance of money being rendered still more excessive through the paying off those government creditors who refused to submit to the reduction of interest made in the stock they held. However much the country banks may have been to blame, we may rest quite satisfied that the censure cast upon them, for too greatly extending their circulation, was unmerited. And we may rest equally satisfied of this, that in so far as the speculation derived its origin or its encouragement from undue issues of bank-notes, these notes were the notes of the Bank of England, which alone, of all the banks in Britain, has the power of *keeping* (not in circulation, but) *out* one note more than the wants of the community render necessary.

An enormous amount of distress having been brought upon all classes throughout England by the failure of so many banks, to guard against the recurrence of such evils, by promoting the institution of

banking companies of greater means than, generally speaking, had previously existed, Parliament resolved, in 1826, to repeal the law of 1708, which limited to six the number of partners in any banking establishment; and it was enacted, accordingly, that thenceforward companies, with any number of partners, might carry on the business of banking, including the issuing of notes, at any place not within sixty-five miles of London; and further, that after 5th April, 1829, the issuing of notes for sums less than £5 should cease in England. At same time, the directors of the Bank of England came to the determination of establishing branches in some of the principal towns,—the general effect of which must have been to lead to the closing of many of the banks which had been carrying on business with insufficient means, and to protect the holders of notes from losses such as they had so extensively suffered in 1793, 1810, 1814 to 1816, and 1826.

The policy of the measure brought forward by government, to legalise the establishment of joint-stock banks throughout England, was, at the time, called in question, on the ground that, from the high reputation and credit such banks were likely to enjoy, the public would take their paper with perfect confidence—that runs upon them would be almost impossible—and that the higher they stood in public estimation, the greater would be the danger of their contributing to unsettle the currency. It was admitted, that so long as their over-issues were unaccompanied by corresponding over-issues by the Bank of England, no harm could result from them, as their over-issues would, in that case, be immediately returned upon them; but it was supposed that

if the Bank of England and they should increase their issues simultaneously, their over-issues would not be returned upon them, but that the whole amount of over-issues—London and provincial—would at once be absorbed in the circulation,—an opinion so utterly erroneous that one cannot hear without wonder that it should have been entertained by men of intelligence and talent, within thirty years of the present date.

The disastrous effects of the panic of 1825 seem, for a time, to have crushed the spirit of speculation; and during a considerable period thereafter, it might almost be said that none existed. But the great generator of speculation was still in being. A redundant currency still floated over the community. Money, which, in 1825 and 1826, was unobtainable by those possessing the highest class of securities, soon became so abundant as to be within the reach of those possessing scarcely any security at all; and, as a necessary consequence, speculation was once more in the ascendant. In 1828, the rate of discount on commercial bills continued, during the whole year, at three per cent.; and during several months of 1830, it fell as low as two and a-half per cent.* Interest-yielding securities, of course, rose in price; and, in 1830, government availed themselves of that rise to reduce to three and a-half per cent. the interest on the new four per cent. stocks, formerly reduced from five per cent.

The years 1830 and 1831 were years of great political excitement on the continent, spreading throughout France, Netherlands, Poland, and Germany.

* Lords' Report, 1848. Appendix (C.)

There was nothing at this time, in the state of trade, to turn the exchanges against Great Britain; but the political events on the continent creating a demand for gold, both for the carrying on of military operations, and to compensate for the slower circulation of money always observed in communities where mercantile confidence is low, which it always must be where political disquietude prevails, caused a rapid drain from the gold in the Bank of England. In July, 1830, the stock of bullion in the bank was about twelve millions, from which amount it sank, by the end of March, 1832, to five millions. But during the time when this reduction was going on, there was no alarm excited in the country; business went on quietly, and the only effect produced was slightly to raise the rate of discount. In 1830, the rate, in the open market, charged on commercial bills was, during several months, only two and a-half per cent. In the end of 1830, in 1831, and in the beginning of 1832, it ruled at four per cent., from which, by the end of 1832, it gradually sank again to two and three-quarters per cent.,—a remarkable contrast being thus exhibited to what must have been the condition of the country, had the regulations afterwards imposed by the currency bill of 1844 been then in force; and by which it would have been imperative on the directors of the Bank of England to have so contracted their circulation as to have rendered a monetary panic inevitable.

In 1833, the charter of the Bank of England was renewed till the expiration of one year's notice, to be given within six months after 1st August, 1844, failing which notice the charter was to be continued till

1st August, 1855, and till expiry of twelve months' notice thereafter; and in this charter it was provided that henceforward her notes should be made legal tender, at all places in England, except at the bank and its branches; that the laws restricting the interest of money to five per cent. should be repealed, so far as they affected bills of exchange not having more than three months to run; that no banking company of more than six partners should issue notes payable to the bearer on demand, in, or within sixty-five miles of, London; that all notes of the bank issued by her branches should be payable in gold at the place of issue; that a weekly account of the bullion, securities, circulation, and deposits of the bank should be forwarded to the Chancellor of the Exchequer, an average of which should be published quarterly in the *London Gazette;* and that, in consideration of its exclusive privileges, the bank should pay to the public £120,000 per annum, to be deducted from the sum allowed to the bank for managing the national debt.

During 1833, money continued as superabundant as it ever had been, and interest on commercial bills ranged as low as two and a-quarter per cent. The recollection of the disasters of 1825 had begun to fade, and it no longer possessed power to counteract the stimulating tendency of such a rate of interest. Speculation was resumed; and, from a table prepared by Mr Porter, shewing the comparative prices of fifty articles of commerce, at the beginning of each month from January, 1833, to December, 1837, it appears that, in course of 1833, there was an advance, by September, of ten per cent. above the prices of January.

From September, 1833, prices continued steady, at that higher level, till the middle of 1834, at which date there began another advance, continuing till February, 1835, when prices had risen to sixteen per cent. above the starting point in January, 1833. At this further advance there was again considerable steadiness for six months, when a fresh impulse was given which carried prices rapidly upward till August, 1836, when the average was nearly thirty-five per cent. above that of January, 1833.*

During 1834, 1835, and 1836, the rate of discount on commercial bills appears to have been somewhat higher than in 1833,—the revival of speculation causing an increased demand for money. On 21st July, 1836, the Bank of England advanced their rate of discount from four to four and a-half per cent., from which, on 1st September following, they raised it to five per cent.,—the rate in the open market advancing, at same time, to five and a-half per cent., at which it continued for six months; and the effect of these measures, acting in conjunction with the discredit thrown by the bank on a class of mercantile bills, which at that time represented a large amount of the floating capital of the country, was to give a check to speculation, and to cause a gradual decline in prices of commodities, which, according to the table above referred to, had, by December, 1837, fallen to only about seventeen per cent. above the average price in January, 1833,—being about eighteen per cent. below the average price in August, 1836.

The speculation of the years 1834 and 1835 was

* "Progress of the Nation," sec. iii., chap. xii.

chiefly turned upon foreign loans, joint-stock banks, and, to a limited extent, upon railways; the effect of the first of which—operating at same time with certain measures taken by the government of the United States to establish a metallic currency in that country—was to cause a considerable demand for gold; and, by June, 1835, the stock in the Bank of England had sunk to £6,150,000, from nearly £10,000,000, in beginning of the previous year. Indeed, it is said that on one occasion, in 1834, it had sunk as low as £4,000,000, or even £2,500,000.* But the directors of the Bank of England being then unfettered by regulations as to the management of their issues, adopted the course which practical observation had taught them to be most advisable for their own interest, as well as that of the community at large. They did nothing to create panic, but satisfied themselves with the certainty they possessed that gold would soon flow back; and, accordingly, it began to return steadily immediately after June, 1835, and increased, by April, 1836, to £7,801,000.

The years 1833, 1834, and 1835, were years of abundant harvests in the United Kingdom; and the general prosperity induced by this, combined with abundant supply of money and low rates of interest, gave to the speculation of the year 1836 a greater intensity than had distinguished that of the preceding years. During the year in question, between two and three hundred joint-stock companies were started—joint-stock banks and railway companies being those in most esteem; but all commanding a

*Lords' Report, 1848. Minutes of Evidence, pp. 71, 72.

certain measure of support, and most of them forming the basis of a great amount of speculative dealing.

The course adopted by the Bank of England, of raising their rate of discount to four and a-half per cent. in July, and to five per cent. in September, 1836, was taken with the view of checking the spirit of speculation; and, under the impression that it had been, to a great extent, fostered by the injudicious proceedings of some of the recently established joint-stock banks in England, the Bank of England refused to discount any bills drawn or endorsed by joint-stock banks of issue. The bank also rejected a large amount of bills drawn in America. The acceptors of these bills were, for the most part, houses of the highest standing, and believed to be possessed of extensive capital. But knowing the fearful amount of speculation that had for some time before existed in the United States, the directors were warranted in anticipating great loss to houses so closely connected with that country, as the firms in question were; and the winding-up of the affairs of three of the great American houses, who were ultimately compelled to suspend payment, shewed that their judgment was well founded.

In beginning of 1837, the difficulties of the great American houses were such, that some of them were under the necessity of applying to the Bank of England for assistance. This was afforded. But their wants became greater; and, in May, they applied for further assistance. This, after very mature deliberation, the directors announced their inability—with a due regard to the bank's interest—to grant; and, on 1st June, the day on which the answer was

given by the bank, the three great firms of Wilson, Wildes, and Wiggin, suspended payment, for a total amount, among the three, of nearly six millions sterling.

For some time after, a great deal of distrust existed; but as the injury done by the fall of these houses affected only those in certain departments of business,—the trade of the country in general being in a state of moderate prosperity,—confidence gradually revived, and discount on commercial bills, which, during the early months of 1837, had been at five and a-half per cent., gradually sank, by the end of the year, to three and a-quarter per cent.

During 1838, money was almost unprecedentedly abundant, rates of discount ranging from three and a-half down to two and a-half per cent. This attracted to our markets, for realization, an enormous amount of American securities; and promising, as they did, a most liberal return for the money invested, they met with ready sale. Considerable quantities of gold were transmitted to the United States in payment for these; but as the exchanges were generally in favour of Britain, the export of gold to the States was no greater than the imports from other parts of the world. The harvest of 1838 proved, however, very deficient; and the import of foreign wheat, which had been only 30,108 quarters in 1836, and 244,275 in 1837, rose, in 1838, to 1,848,477 quarters, in addition to a large amount of other descriptions of grain. The suddenness of the demand had the effect of causing a great advance of prices abroad; and, as the whole, or very nearly the whole, of the grain so imported had to be paid for in

gold, a drain commenced on the bullion in the Bank of England, which reduced it from £9,336,000, on 8th January, 1839, to £2,525,000, on 24th October following.

The Bank of England rate of interest, raised on 1st September, 1836, to five per cent., and reduced on 15th February, 1838, to four per cent., was advanced on 16th May, 1839, to five per cent., on 20th June, to five and a-quarter per cent., and on 1st August, to six per cent.; the effect of which—in conjunction with a considerable limitation of their discounts, and a contraction of the circulation from £18,298,000, in March, to £17,612,000, in October, 1839—caused great alarm, an excessive scarcity of money, and a fearful amount of bankruptcy and misery throughout the country.

By the mercantile community the bank directors were blamed for contracting their discounts too much and too suddenly; while, by the theorists, they were blamed for not contracting them sufficiently, and for "evincing too much tenderness for what they conceived to be the interests of commerce." It is true, their having contracted them in any further degree would have had the effect of causing half the merchants of the United Kingdom to suspend payments, of throwing idle three-fourths of the factories, and of reducing to utter want a large proportion of its population; but, to the sensitive mind of a political economist, mere human suffering sinks into insignificance, when compared with the spectacle of woe exhibited in the reduction of the stock of gold in the Bank of England to two millions and a half! And "though, as matters turned out, less hardship was

inflicted on individuals by the course the bank took, than if she had resolutely followed up the course pointed out by *principle,*"*—by principle being meant sacrificing the interests of the community, and spreading devastation, poverty, and crime over the length and breadth of the land, under the notion that the return of gold to this country might thereby have been made to take place a few weeks sooner than it otherwise would have done,—it was held by some political economists, that it would have been far better that all that misery should have been scattered over the British people, than that the stock of gold in the vaults of the Bank of England should ever have been allowed to sink below four and a-half or five millions!

But, fortunately for the country, the bank directors were guided by experience, and not by theory alone; and all past observation had served to convince them that, had they contracted their issues a little more than they did do, the immediate effect would have been, not to bring in gold, but to cause such a panic as would have drained their treasury of every sovereign in it. As men having a certain acquaintance with the course of mercantile operations, they knew that to restore a favourable balance of trade is a thing not to be effected in the space of a few weeks, or even months; but they knew that the state of things existing around them would effectually check anything like investment in foreign securities; they knew that, in the case of goods sent to foreign countries, months, or even years, might elapse before returns could be obtained for them; but they knew that the gradual influx of gold from those countries, which were indebted to our merchants, would, in

* M'Culloch's "Commercial Dictionary." Art., "Bank of England."

process of time, fill up the vacuum caused by the transmission of gold for the purchase of foreign grain; they knew, further, that no intensity of suffering, which they might have inflicted on their country, would in any degree accelerate the inward flow of this gold; and, in addition to all this, they knew that the high rate of interest prevailing, and the consequent fall in the prices of all interest-bearing securities, was very likely to attract the notice of foreign capitalists, and to draw money from countries which would not have increased their imports of our goods, however low the prices of these might have been forced down.

The drain of bullion from the bank continued, notwithstanding the advance made on rate of discount; and various circumstances tended to shew that it arose, not solely from the unfavourable balance of trade brought about by the large importations of foreign grain, but, also, to no inconsiderable extent, from a feeling which prevailed on the continent, that the specie payments of the Bank of England must ere long be suspended. Many parties residing on the continent, having funds in the Bank of England, withdrew the whole of them; and it was said that, in numerous instances, continental merchants, having stocks in the hands of agents in London, drew on these agents to the full extent of the credits they could obtain, cashed the bills in London, and took gold from the Bank of England for the notes obtained by discounting them. In such a state of matters, it became evident that no amount of pressure on the money market could be of any avail in bringing in gold with the requisite rapidity; but it was seen

that the difficulty could be met by providing bills on the continent, the absence of which could alone induce any one to take gold; and an arrangement was, accordingly, in the month of July, 1839, made with Messrs Baring, Brothers, and Co. and the Bank of France, by which the Bank of England put various securities into the hands of the former, who agreed, in return, to draw bills at three months' date on different houses in Paris, to amount of 40,000,000 of francs, while the latter agreed to cash the bills so drawn; and as the bills arrived respectively at maturity, new bills were to be drawn, also at three months, the proceeds of which being applied to payment of the former, extended the ultimate provision for the bills to a period of six months. This arrangement was expected to operate doubly: first, the proceeds of the bills on Paris, cashed on 'Change, being paid over to the Bank of England, would, it was supposed, give the bank a control over the circulation to the extent of the notes so paid in; and, second, the bills would serve to supply a medium of remittance to the continent, being sold at a premium somewhat less than was required to cover the expense of transmitting gold, and thus put an entire stop to the drain on the Bank of England's stock of bullion. As regards the latter, the expectations formed were fully realised; but, as regards the former, the case was different, the place of the Bank of England notes withdrawn from circulation being supplied by the notes of private bankers, but for which a panic would in all probability have occurred, leading to the withdrawal of deposits from the Bank of England to supply that amount of circulating

medium actually required to supply the wants of the country.

As usually happens after a period of panic, speculation, at least on any great scale, was lulled for a few years; though, in the article of tea, the interruption to the trade with China caused a certain amount of speculative excitement in end of 1839 and in 1840; but money soon became again abundant, and, as the natural consequence, speculation followed. During the latter part of 1839, confidence was low, money not abundant, and interest on the highest class of mercantile bills was six and a-half per cent. in the open market. But on 22d January, 1840, the Bank of England reduced its rate of discount from six to five per cent., at which rate it continued till 7th April, 1842, when it was reduced to four per cent. Till beginning of 1842, interest in the discount market ranged, for bills of the highest class, from five and a-half to four and three-quarters per cent.; but the reduction of the bank rate to four per cent. was succeeded by a reduction in the open market, in which, before the end of 1842, it fell to two and a-half per cent.,—the rate in 1843 ranging, during a considerable portion of the year, as low as two per cent., being rarely above two and a-quarter and never above two and a-half per cent. In 1844 money was still more abundant, as indicated by the fact that discount fell to one and a-half, and was scarcely ever above two per cent. A great rise in the price of stocks was the necessary result of this, and government took advantage of it to effect a reduction to three per cent. on the whole of the national debt, which previously bore interest at three

and a-half per cent.,—the reduction being, however, in the first instance, only to three and a-quarter per cent., at which interest was to be paid for ten years, at the end of which it was to be reduced to three per cent., guarantee being given that no further reduction should be made for twenty years thereafter.

The charter granted to the Bank of England in 1834 provided that the government should have power to terminate it on giving one year's notice after 1st August, 1844. Sir Robert Peel, who had returned to office in 1842, availed himself of the opportunity thus afforded to give effect to certain views of his own, formed in accordance with the theories of the wildest and most unpractical political economists; and in course of 1844 and 1845, bills were introduced for, professedly, "the better regulation of the issue of bank-notes," but which served to convert a system already very bad into one than which it would be difficult to imagine anything worse; or, in the words of Mr M'Culloch—"Had a committee of clever men been enlisted to devise means by which the public might be tempted to engage in all manner of absurd projects, and be most easily duped and swindled, we do not know that they could have hit upon anything half so likely to effect their object as the" * currency bill of 1844.†

The acts in question made many and very important alterations on the law as affecting both the

* "Commercial Dictionary." Supplement, p. 21.

† Mr M'Culloch being a warm supporter of the currency bill of 1844, it may be proper to state that the passage above quoted refers to the American banking system, to which, however, it is by no means so applicable as it is to Sir R. Peel's currency measure.

Bank of England and the various banks throughout the United Kingdom, the leading features being as follows :—

As regards the Bank of England, it was provided by 7 and 8 Vict., c. 32—

(1.) That the issue department and the discount department of the bank should henceforward be separated.

(2.) That the bank should be allowed to issue notes to extent of £14,000,000, against that amount of debt due to the bank by the nation; but that her issues beyond that should be represented by gold coin or bullion, or silver bullion, in her treasury.

(3.) The amount of silver bullion in no case to exceed one-fourth of the gold coin and bullion in the bank: but (5.) provision being made, that in case any bank which, on 6th May, 1844, was issuing its own notes, should cease to do so, it should become lawful for the Bank of England to increase its circulation to an amount not exceeding *two-thirds* of the amount which the bank so ceasing to issue may have been authorised to issue under the provisions of this act,—said additional circulation to be represented by a corresponding increase of securities in the issue department.

(4.) That the bank should give notes in exchange for gold bullion, at the price of £3, 17s. 9d. per ounce [and, as before, give gold coin or bullion in exchange for its notes, at the price of £3, 17s. 10½d.]

(6.) That an account should be published weekly in the *London Gazette*, shewing the amount of notes issued by the issue department, and of the gold coin, and gold and silver bullion, and securities in it; and

also of the capital stock and the deposits, and of the money and securities belonging to the banking department.

(7.) That the bank should henceforward be freed from stamp duty on its notes; and (8.) that it should pay to government £180,000 annually, in consideration of the privileges enjoyed by it; and (9.) also such profit as it should realise from increasing its circulation on securities held by the issue department, beyond the sum of £14,000,000.

(27.) That this charter should continue in force till 31st July, 1855, and till the expiry of twelve months' notice thereafter, and payment of all debt due to the bank by the nation.

As regards the COUNTRY BANKS in England, it was provided by 7 and 8 Vict., c. 32—

(10.) That no new bank of issue should be established in England; but (11.) that any bank existing on 6th May, 1844, should be entitled to issue notes for sums of £5 and upwards, but not under, to an amount not greater than (13.) the average amount issued by it during twelve weeks immediately preceding 27th April, 1844; and (12.) that no bank discontinuing to issue notes should be allowed to resume doing so.

(16.) That in event of two or more banks (each consisting of not more than six partners) becoming united, the united bank should be entitled to issue notes to an amount equal to what each separately might have done; but if the number of partners in the united bank should, at any time, exceed six, the privilege of issuing notes should then cease;

and in event of the union of two joint-stock banks, if a new title were adopted, each should lose its right to issue notes; while, if they kept up the title of one of them, the circulation formerly possessed by it might be continued, but that of the other should cease.

(18.) That every bank should furnish to the Stamp-office an account of the amount of notes it has in circulation at the close of business on each Saturday; and at the close of every period of four weeks, an account of the average amount of its circulation during that period.

(26.) That henceforward banks in London, as well as in any other part of England, should be entitled to draw, accept, and indorse bills of exchange, not being payable to the bearer on demand, however great the number of its partners may be.

As regards the BANKS IN SCOTLAND, it was provided by 8 and 9 Vict., c. 38—

(1.) That no new bank of issue should be established in Scotland, but that all banks which issued notes from 6th May, 1844, to 1st May, 1845, should be allowed to continue to issue to an amount equal to the average amount issued during the period of one year preceding 1st May, 1845; and, in addition thereto, to an amount equal to the amount of gold coin, or gold and silver bullion, held by the bank at its principal place of issue; (11.) the proportion of silver to be not more than one-fourth that of gold.

(2.) That in event of two or more banks becoming united, the united bank should have power to issue

an amount of notes equal to what the two could have issued separately.

(7.) That accounts should be transmitted to the Stamp-office by every bank at end of every week, and at end of every period of four weeks, shewing the amount of circulation weekly and monthly, and of gold and silver held; (9.) the return made at end of each period of four weeks to be published in the *London Gazette.*

(15.) That Bank of England notes should be no longer a legal tender in Scotland.

As regards the Banks in Ireland, it was provided by 8 and 9 Vict., c. 37—

(1.) That banks with more than six partners should henceforward be allowed to carry on business in and around Dublin, the same as in any other part of Ireland.

(2.) That the Bank of Ireland should receive interest at rate of three and a-half per cent. per annum on the sum of £2,630,769, 4s. 8d. owing to it by the nation. (3.) And that it should manage the public debt of Ireland, and pay the dividends thereon without charge to government.

(8.) That banks which issued notes between 6th May, 1844, and 1st May, 1845, should be entitled to continue to issue notes to an amount not exceeding the average amount issued during the year ending 1st May, 1845, and to an amount additional thereto, corresponding to the amount of gold coin and bullion, and silver bullion, held by each bank respectively—the proportion of silver to be not more than one-fourth that of gold.

(9.) That in case of two or more banks becoming united, the joint issues might be the same as their separate issues added.

(12.) That any bank discontinuing the issue of notes, might relinquish their power in favour of the Bank of Ireland, which should thereafter be entitled to increase its issues to a corresponding extent.

(13.) That no bank discontinuing to issue notes should have power to resume doing so.

(16.) That every bank should furnish to the Commissioners of Stamps and Taxes, an account every week, and at end of every successive period of four weeks, shewing the amount, in the former, and average amount, in the latter period, of notes in circulation, and of gold and silver held. (18.) The four-weekly statement to be published in the *Dublin Gazette.*

It will be observed, there are various points of difference between the regulations as affecting the banks of the different countries, the most prominent being these—

English banks are not, in any case, allowed to exceed their fixed limit, while Scotch and Irish banks may do so, by holding gold and silver to an amount equal to the excess of issues.

English banks uniting, retain their power of issuing notes to same extent as they could do separately, provided the united bank have no more than six partners; but two joint-stock banks, or two private banks having between them more than six partners, cannot unite without losing their power to issue; while in Scotland and Ireland, banks may unite

without hindrance, and keep up the circulation of each.

In case of English banks ceasing to issue, the Bank of England may extend her issues to extent of two-thirds only of that given up; while, in case of Irish banks so ceasing, the Bank of Ireland may increase her issues to extent of the whole amount withdrawn. In Scotland, payment of notes can be enforced only at the head office of the bank that issued them; while in Ireland it may be also at the branches at which they may have been issued.

Under this new law the amounts which the banks throughout the three kingdoms were authorised to issue were as follows:—

Fixed issues of—			
Bank of England, ...		£14,000,000	
Private Banks (England and Wales), . . .	£5,153,407		
Deduct 21 private banks—since ceased to issue,	330,919		
		4,822,488	
Joint-stock Banks (England and Wales), . . .	£3,495,446		
Deduct joint-stock banks—since ceased to issue, .	85,459		
		3,409,987	
			£22,232,475
Banks in Scotland, ...			3,087,209
Banks in Ireland, ...			6,354,494
Fixed issue in the United Kingdom, .			£31,674,178

—no issues beyond which are permitted by country banks in England, on any condition; nor by the Bank of England, or by banks in Scotland or Ireland, unless the excess be represented by gold in the possession of the banks making them.*

* "Banking Almanack."

The leading feature in the new legislative enactment was this—that whereas, previously to its being passed, every one throughout the United Kingdom was allowed to issue bank-notes to whatever amount he could keep in circulation, no one was to be permitted to issue bank-notes, except such as had done so for twelve months prior to the dates on which the respective bills came into force, while as regards those who had been so issuing, fixed limits were by it assigned to each; beyond which the English country banks could not pass on any condition, and beyond which the Bank of England and the Scotch and Irish banks were allowed to pass only on the condition of their holding an amount of gold and silver equal to the amount to which their issues might go beyond the limit in question; the immediate object sought to be attained being, to cause the currency to expand and contract exactly as a purely metallic currency would do; and the ultimate object aimed at being, in the words of Sir Robert Peel, "to prevent (as far as legislation can prevent) the recurrence of those evils from which we suffered in 1825, 1836, and 1839"—or, in other words, to prevent the return of those cycles of excitement and depression which had so long distinguished our mercantile history; to prevent superabundance of money at one time, and scarcity at another; to prevent undue fluctuation in prices; to put a check on improvident speculation, and thereby to ward off the panic which such speculation never fails to lead to. The former object, namely, that of making the currency contract and expand exactly as a metallic one would do, may be said to have been attained; but as regards the

latter, namely, that of preventing those fluctuations which lead to speculation, it may safely be affirmed, that never did human ingenuity devise any contrivance more utterly unfitted for the end it was designed to answer, being erroneous in theory, and in its practical working most injurious to the interests of the nation.

Depending, as the quantity of gold in this country must always do, on the state of the balance of trade between it and other countries, it is evident that the stock of it must be subject to constant fluctuation in amount, being large or increasing when the exchanges are favourable, and being small or diminishing when the exchanges are unfavourable,—the former being always accompanied by the presence of mutual confidence among merchants, and the latter by the absence of it; and mutual confidence being, in like manner, inseparable from a rapid circulation of money, while a slow circulation is the as sure attendant upon a state of alarm and diminished confidence: and, accordingly, this system provides that when confidence is high, circulation rapid, and, consequently, a small amount of money is sufficient for carrying on the monetary transactions of the community, then money is to be made more and more abundant; while, on the other hand, it provides that when mutual confidence is suspended, money circulates slowly, and a larger amount of it is therefore requisite for duly carrying on these transactions, then the supplies of money are to be diminished.

It is true, the act does not make it imperative on the directors of the Bank of England to increase their issues; but they seem to consider that the spirit

of the act requires that they should do all that lies in their power to make money abundant during periods of general confidence. For, as they stated in evidence before the committee of the House of Commons on the commercial distress of 1847, "if we keep the notes in the reserve, instead of giving them out to the public, the effect that ought to be produced by gold coming into the country is counteracted; it induces a larger amount of capital to come into the country, because we do not allow that portion which has come in to be employed. If you do not put out the gold, or the representative of gold, you entirely prevent its having any effect upon the circulation. The exchange will be kept up, and gold will continue to come in." * The views thus expressed by the directors are in perfect accordance with those of the theorists by whom the principle of the bill had been long advocated, and to meet whose notions is understood to have been the intention of Sir Robert Peel,—the rule laid down by them having been, that the issues of money should "be increased with every rise in the price of goods," † so as to make the rise as great as possible; and then, when prices began to fall, that the issues should be curtailed,—all for the purpose of diminishing speculation! And, accordingly, on 27th August, 1846, the bank reduced its rate of discount from three and a-half to three per cent.,—the object being to check the influx of gold, but the effect being to give an increased stimulus to speculation. So that, in place of having

* Commons' Report, 1848. No. 3009.

† "On the Principles of Political Economy and Taxation." By D. Ricardo, Esq., London, 1817, p. 503.

a tendency to prevent speculation at one time, and panic at another, the act does all that any currency system can do to promote these evils. The increase of the currency is fitted to lead to low interest, to speculation, and to a rise of prices; while the succeeding contraction cannot fail to make money scarce, and so create panic and lead to unreasonable depression of prices.

The effect of the provisions of this bill is to place the commercial prosperity of the country at the mercy of foreigners; as, at almost any time, it would be quite practicable, through the combination of a few of the millionaires of the continent or America, to withdraw two or three millions from the gold in the vaults of the Bank of England, and thereby to create such a panic, and such a scarcity of money as would scatter bankruptcy over the land, and so reduce prices of goods and stocks, as to enable those by whom the operation was executed to make a gain of fifteen or twenty per cent. every time the operation was repeated.

Had the gold-worshippers by whom the bill was brought forward been satisfied with the fact, that the desired amount of that metal was in actual existence on British soil, the evils attendant upon it would have been mitigated. But it was not regarded as sufficient that it should be held in the country—it was regarded as essential that it should lie within the walls of the Bank of England; and, accordingly, a drain of gold from the bank was to be accompanied by contraction of the currency, whether the gold was intended for the adjustment of an unfavourable exchange, and to be sent out of the country, or was taken to supply an in-

ternal demand, prompted by local circumstances; so that a contraction of the currency as great and as injurious in its effect on the business of the nation, as that arising from an unfavourable balance of trade, and consequent exportation of gold, might result from the failure of some small country bank,—the natural effect of which might be limited to the loss of £10,000 or £20,000 to those that dealt with it; but the indirect effect of which might be, in certain states of public feeling, to create alarm with regard to other banks, who would then, to provide for the runs that might be made upon them, be compelled in prudence to increase their stock of gold. This they could only do by obtaining it from the Bank of England, which would then be bound to contract its circulation to an amount corresponding with that of the gold temporarily withdrawn from its coffers.

The theory on which the act proceeded was, that when the exchanges became unfavourable to the country, then its operation would cause a scarcity of money, and so depress prices of all British commodities, as to make it for the interest of foreigners to take payment of their debts in goods, rather than in gold. But it was forgotten that the scarcity of money so existing, always tends greatly to the interruption of exports. Foreigners, able to buy for cash, defer giving their orders, in the expectation that prices will sink lower and lower.* Where orders could be obtained, the manufacturers are unable to execute them, from the difficulty they would encounter in getting cash for the bills in which they would receive payment; and even where parties can be found

* Lords' Report, 1848. No. 2164.

possessing wealth to enable them to send abroad goods without any aid from banking facilities, such a length of time must necessarily elapse before returns can be got back, that it may be presumed they will make their appearance much too late to be of any service in allaying the panic existing at the time the goods are sent off;—the gold which serves for the restoration of confidence being either that which comes in in the ordinary course of trade, and so would have come in had there been no contraction of the currency, or gold which may be sent by foreigners, to obtain the benefit of the advanced rate of interest, and consequent fall in the price of all interest-yielding securities, which such a state of matters necessarily brings about. Gold comes in when it can be invested in the funds at 78¾ per cent., to be taken back when the investment can be realised at 102 per cent.,—affording a profitable speculation to the foreign capitalist, but a source of heavy loss to the British people.

The promoters of the bill of 1844 seem to have imagined that the circulation admitted of indefinite increase, and that the notes to be issued as each additional importation of specie was made, would be absorbed in the circulation, and would at once raise prices to an extent corresponding to the addition thus made to it, which, as I have endeavoured to shew,* is an error,—the fact being, that the circulation of any country, already sufficient, does not admit of any increase, except from the presence of causes not under immediate control, such as an increase of the population, or the prevalence of dis-

* *Supra*, p. 101.

trust, causing money to circulate slowly, and thus rendering a larger quantity necessary for conducting the monetary transactions of the community. I have shewn, however, that though such additions to the stock of money in a country cannot be absorbed in its circulation, they are not on that account the less injurious in their effects upon trade,—the redundant currency thus produced never failing long to produce speculation, and consequent unwarrantable advance in prices, leading to the natural results—panic and bankruptcy. The promoters of the bill supposed that increase of the currency would directly raise prices; they desired that every additional importation of gold should cause an increase of currency; and they at same time brought forward the measure as one calculated to diminish speculation! Formerly, the directors of the Bank of England, in the proper exercise of the power entrusted to them for the regulation of the currency, were accustomed to diminish their transactions when money became too abundant; or, in other words, they never lent money at a rate below four per cent.,—so that, so long as money was injuriously plentiful, they ceased to make additions to the supply of it. But this power was taken from them. It was intimated to them, that, thenceforward, the currency was to be left to take care of itself; that all they had to do was to issue as many notes as the law allowed them, so as to expand the currency as much as possible when the exchanges were favourable, and contract it when they became unfavourable—thus leading, certainly not to steadiness in prices, but to extreme fluctuation.

The object which the promoters of the bill seem to have had most prominently before them, appears to have been to secure what they called "the convertibility of the note;" and in their anxiety to put that beyond danger, they overlooked the risk of an equally great evil—that of the Bank of England being unable to pay its deposits,—an event which the operation of the bill was very near bringing about in 1847, and certainly would have brought about, had not the interference of government in that year suspended the provisions of the act; and in so doing restored confidence, and prevented the continuance of that alarm which had spread so much damage over the community, and which, had it continued a little longer, would, in all human probability, have caused a run on the bank for deposits, in which case a suspension of payments would have been inevitable, the bank's reserve of notes in London being only about £600,000, in October, 1847, while the private deposits amounted to about £9,000,000.* Had such event taken place, it can hardly be doubted that its injurious results would have been greater than any that could have flowed from its ceasing to pay in specie.

But the utterly fanciful character of the notion, that any precaution could (under extreme circumstances) serve to maintain the "convertibility of the note," is made sufficiently obvious by the consideration that the bank-note circulation of the three kingdoms amounts to about forty millions, while their deposits cannot be less than one hundred and eighty millions, giving a gross amount of about two

* Lords' Report, 1848. No. 3027.

hundred and twenty millions,—all professing to be payable in gold, on demand,—the whole stock of gold held by the different banks, out of which the payment could be made, being only about eighteen or twenty millions; so that, in case of a general run, nine notes out of every ten would prove, after all, to be "inconvertible."

The regulation which compels the banks in Scotland and Ireland to keep constantly on hand a larger stock of gold than they had been accustomed to keep, seems, by almost universal consent, to be an injudicious one,—lessening, as it does, the stock which would otherwise exist in the vaults of the Bank of England, available for supplying the wants of trade; while it affords really no security at all against a run,—there being in Scotland banks which, between notes in circulation and deposits, have liabilities to extent of five or six millions, while there is none that keeps a stock of gold much exceeding £300,000; and the circulation and deposits of all the Scotch banks amount to upwards of forty millions, while the stock of bullion held by them altogether is never more than about £1,100,000 or £1,200,000. Besides which, the necessity that the banks in Scotland and Ireland are under to have constantly on hand a quantity of gold bearing a fixed proportion to the amount of their notes in circulation, puts it out of the power of any of them to afford assistance to another bank on which there might happen to be a run. And within the last twenty-five years, there have been runs on banks in Scotland. As every other bank, however, had the fullest assurance of the stability of

those on which these runs were commenced, and as they knew, besides, that were the public to discover the slightest appearance, on the part of the bank run upon, of hesitation or inability to meet all demands, it *might* form the signal for runs upon themselves, each bank placed its gold reserves, in so far as they were needed, at the disposal of the bank so run upon; and consequently the display of gold was so imposing, as to satisfy the timid that their fears were groundless, and to convince the mischievous that their hopes were visionary. But were such a run to take place now, each bank would require to look to its own resources alone. Its neighbours could afford it no aid; as, were they to do so, it could only be (at least beyond a very trifling amount) by removing that stock of gold which the law insists upon as the basis of their circulation, and so exposing themselves to the penalty which the contravention of that law incurs.

From the foregoing observations, it would appear that the currency measures of 1844 and 1845, however much they may have been intended to check speculation and all violent fluctuations in prices, were singularly ill adapted for that object, and that their real tendency was to create unceasing oscillations in the currency, and by means of these to lead to the continual occurrence of those seasons of speculation and subsequent panic which its professed object was to prevent altogether. This is what an impartial view of the measure in question would lead to the expectation of, and the sketch of the history of the subsequent period now to follow, will serve to

shew that the soundness of the expectation has been proved by experience.

Before the passing of the currency bill of 1844, money had been abundant, and rate of interest low; but no sooner had the bill come into operation than the directors of the Bank of England (on 29th August, 1844) reduced their rate of discount from four to two and a-half per cent. Previously thereto they had never come into the discount market till such time as interest rose to four per cent., the effect of which was to prevent that excessive abundance of money which has since been occasionally observed. As has been already remarked, they held themselves bound to look to the interests of the community at large, as well as those of their own proprietary, in the management of their issues. But from this duty they were now formally absolved by the framers of the new bill, who expected that its mechanical operation would keep the currency always in a sound state; and who intimated, accordingly, to the bank directors that they need give themselves no further concern about the welfare of the nation, but devote their whole energies to the making of profit for the bank,—the banking department of which they were told to manage "like any other banking concern using Bank of England notes."* They reduced their rate of interest accordingly; canvassed, it is said, for business, with the view of getting a larger portion of their notes employed in discounting bills; and with the view of still further increasing their issues,

* Lords' Report, 1848. Nos. 857, 858, 1414.

they invested £2,400,000 in railway securities.* A reduction followed, of course, in the discount rates in the open market in London, and also in those charged by bankers throughout the kingdom; for it is evident that when money is abundant, the market rate of discount for bills of such class that the Bank of England would cash them, can never be higher than its rate; though, on the other hand, when money is scarce, the market rate is always above that of the Bank of England; for, as it will cash none but bills of the first class, all second-rate bills must submit to a higher rate, while those of a class still lower may scarcely be negotiable at all.

In 1844, it was observed that money had continued abundant for a longer period of years than it had ever before been known to do; and rates of discount were lower in that year than on any former occasion. This was not the consequence of an unusual increase in the capital of the country, or of diminution in the opportunities for its profitable employment, but arose from the operation of the act of 1844,—first, in causing an increase in the issues of the Bank of England, proportioned to the increase in the quantity of gold, which a long-continued favourable balance of trade had caused to flow into the country to an unprecedented extent; and, second, in bringing the Bank of England into competition with other bankers in the discounting of bills. The natural effect followed,—namely, the rise of a spirit of speculation, which prevailed, during this and the two succeeding years, to an enormous extent. In the year 1845, joint-stock speculations were set on foot, chiefly for

* Lords' Report, 1848. No. 397.

the construction of railways in different parts of the world, on a scale of unprecedented magnitude. The proposed capital for the construction of railways, the sanction of which by Parliament was applied for in the following session, exceeded £340,000,000 ; and if we include the other schemes, in connexion with which scrip or letters of allotment were selling in the market at a premium, in July, August, and September, 1845, the amount of capital required for their execution is said to have been not less than £500,000,000.

With the view of affording some check to this wild speculation, the Bank of England, on 16th October, 1845, advanced its rate of discount from two and a-half to three per cent., from which, on 6th November, 1845, it raised it to three and a-half per cent. A series of articles which had shortly before appeared in the pages of the *Times*, had had a powerful effect in opening the eyes of the community to the madness of the schemes which had risen so high in public favour; and the advance of the bank's rate of discount coming immediately after, created a panic, which brought about a rapid decline in the prices of all descriptions of railway stock, and led, afterwards, to the exposure of a fearful amount of villany on the part of very many individuals, occupying a high position among the landed as well as the mercantile aristocracy of the country,—in giving the sanction of their names to schemes of the most worthless character, and, in a still greater degree, in issuing for years reports of their various companies which represented their affairs as being in a very flourishing state, and as warranting the de-

claration of large dividends, which in many cases were paid, not out of profits, but out of capital.

The check thus given tended considerably to abate the railway speculation. Confidence was diminished, and throughout 1846 money was less abundant than it had been for several years before,—the market rate of discount for the highest class of mercantile bills varying from three to five per cent., and the average rate (as shewn by a table furnished by Mr Gurney to the committee of the House of Lords on the commercial distress of 1847) being three and eight-tenths per cent.; while, in 1844, the average rate was as low as two and one-tenth per cent. per annum. But, in end of 1846, the stock of bullion in the Bank of England had become so great, as to threaten a serious diminution of the profits of the bank, which, it is evident, must always (other circumstances being the same) be less when a large proportion of her issues is based on gold, than when they are not,—no interest being obtained for the notes given in exchange for gold, while interest is derived from the notes issued in discounting bills; and, with a view of checking the further importation of that metal, the directors, on 27th August, 1846, reduced their rate of discount from three and a-half per cent., at which it had been from 6th November of the previous year, to three per cent.,—the immediate effect being to give an increased stimulus to speculation, especially in articles of food, in the prices of which a gradual advance immediately followed. The country was in a state of general prosperity, though—as was inevitable, with the presence of a currency so excessive, as compared with the

wants of the community, and with the low rate of interest which resulted from that—there continued to be a great amount of speculation, not only in railways, but in almost every branch of commerce; but the harvest of 1846 was a deficient one, the potato crop having been almost totally lost, and the consequence was, that a large importation of foreign grain was required, leading to a drain of bullion from the Bank of England, the stock of which, amounting, on 29th August, 1846, to £16,366,068, was reduced, by 17th April, 1847, to £9,329,841, being a reduction, in little more than seven months, of not less than £7,036,227.

The occurrences of the year 1847 tested the soundness of many of the principles involved in the currency bill of 1844; and the one now alluded to was an occurrence such as the promoters of that bill were very confident would, under it, be impossible. Colonel Torrens, one of the most talented advocates of that measure, when asked, in 1844, what would be the effect of a drain of bullion to extent of £7,000,000 in nine months, should it again occur, replied—"The proper answer to this question is, that, when the government plan shall have been carried into effect, the abstraction of £7,000,000 of treasure from the coffers of the bank, in a period of nine months, will be morally impossible. The violent fluctuation which occurred between December, 1838, and September, 1839, was the result of the system which the querist would desire to uphold."* Colonel Torrens, no doubt, supposed that an export of bul-

* "Reply to the Objections of the *Westminster Review* to the Government Plan for Regulating the Currency." By Col. Torrens.

lion was the consequence of "depreciation of the currency," and that a contraction of the currency would at once check it; while the two had not the slightest connexion with each other, gold being sent away, not because it is "cheap" or "dear," but because it is required for the discharge of debts owing to the people of foreign nations.

The drain of bullion, which had begun in September, 1846, seemed to have come to an end in beginning of November, but was renewed to a small extent in beginning of December, when it again ceased. But in January, 1847, it began again; and on the fourteenth of that month the Bank of England rate of discount was raised to three and a-half per cent., from which, in course of six days after, it was raised to four per cent.; a still further increase to five per cent. being made on 8th April;—notwithstanding which, however, the drain continued on a large scale till the end of April, immediately after which the exchanges turned, and gold flowed in, which it continued to do till the end of the year. This might have been expected to bring the money market into an easy state; but in July and August, extensive arrivals of grain from the continent of Europe and America poured in; and this, coupled with the prospect of an early and abundant harvest, caused a sudden decline in price of wheat from £6 per quarter to £3, and even less,—all other descriptions of grain falling in equal proportion. The failure of a number of eminent houses in the metropolis, connected with the grain trade, was the immediate result; and that was quickly followed by the suspension of an extensive bill-broker, whose stoppage, by

closing one of the principal channels of discount between the country and London, caused inconvenience to parties in almost every quarter of the kingdom, and tended to create a wide-spread feeling of alarm and distrust. Coming, as this did, after an amount of speculative dealing, which long-continued abundance of money and low interest had fostered, and which a very large proportion of the British people had been participators in, it tended to produce an utter destruction of confidence. Bank-notes were hoarded to a great extent, so that the "circulation" of the Bank of England, which was formerly much in excess of the wants of the country, became utterly inadequate to their supply.

Money was unprocurable, even by houses in the highest credit, and able to offer the most undoubted security. One London merchant, with silver bullion in hand to the value of £30,000, was unable either to sell it or to obtain an advance of a few thousand pounds on its security.* William Brown, Esq., head of a great American house, which passed through the ordeal of 1837, as well as through every other part of its career, with its credit unaffected even for one moment, stated in evidence before a committee of the House of Lords, that his house in Liverpool had been unable, in August, 1847, to obtain even a few thousand pounds from the branch of the Bank of England in that town. "At the time of the greatest pressure," he, quoting the words of his partner, states, "we had no bills under discount with them at all, and wanting a few thousand pounds of cash unexpectedly, I told the manager we should send in a few bills for dis-

* Lords' Report, 1848. No. 1827.

count, which he said he really must decline. I remarked that this was very extraordinary, considering that within four months they had held several hundred thousand pounds of bills from us under discount at one time, and at that moment they did not hold one. He answered, 'I know it; but we are so pressed, you really must not come for discounts now; or, if you do, limit it to £3000. I cannot do more for you.' In consequence of this, we did not go to him for any discounts after that, nor take the £3000 he then offered; as it happened, we had no occasion to do so."* If such was the impossibility of obtaining discounts with a house occupying such a position as the one in question, it need not excite surprise that "houses of great responsibility and great respectability, being disappointed at the local banks in getting those discounts which they had been accustomed to get, in order to meet their engagements really made sacrifices which brought many of them almost to the verge of bankruptcy, by selling produce of various kinds at prices at which they could not replace it in the markets from which it was imported;"† and that so great were the losses sustained by the manufacturing and mercantile classes over the kingdom, that "six years of uninterrupted prosperity and large trade would not restore to Liverpool what Liverpool lost during six months of the year 1847."‡

The Royal Bank of Liverpool, the Liverpool Banking Company, the North and South Wales Banking Company, the Union Bank of Newcastle, and various

* William Brown, Esq. Lords' Report, 1848. No. 2318.
† Ibid. No. 2353.
‡ A. H. Wylie, Esq. Lords' Report, 1848. No. 1951.

private banks throughout England, were compelled to suspend payment. The banks which maintained their credit, being in constant apprehension of runs upon their deposits, were enabled to do so only by limiting, in an extreme degree, the accommodation they had been in the habit of giving to their customers. The renewing of bills which, to almost all houses engaged in trade with distant countries, was essential to their existence, became impracticable; and the consequence was, that a large proportion of all the houses in the United Kingdom engaged in that trade became unable to meet their engagements. In London, "thirty-three houses, comparatively speaking large houses, failed, to the amount of £8,129,000;" and in Liverpool and in Glasgow the number was proportionably great. Of the London houses, "the first seven were expected to pay in full; of the others, one was expected to pay 12s.; another, 11s.; and so on; the average (with exception of the first seven) expected to be yielded being not more than 6s. 8d. in the pound."* The actual result, however, fell very far short of the expectations so formed. One house in Glasgow, extensively engaged in the China and South American trades, has recently been announced in the newspapers as having paid 20s. per pound, with interest; but of the great London houses, the average dividend has seldom exceeded in pence the number of shillings they were at first expected to pay. This would seem to indicate the existence of a very lamentable extent of insolvency among these houses; but it must be borne in mind, that the result of a business carried

* Lords' Report, 1848. No. 112.

on by parties intimately acquainted with its minutest details, may be a different thing from the result of the same business wound up by an official assignee, or trustee; and that the surrendering a large concern, with its wide ramifications and complicated machinery, to the management of one destitute of practical acquaintance with such business, is likely to lead to consequences pretty similar to what would follow the entrusting the delicate framework of a watch to the anatomical scrutiny of a child; and it may not unreasonably be inferred, that but for the mischief wrought by the currency system which existed in 1847, in compelling merchants to sacrifice property at half of what it cost, and in depriving them of that banking accommodation which the nature of their legitimate business rendered indispensable, and which, but for the panic produced by the working of this system, would have been easily obtainable, many of the houses which then suspended payment might have continued to be, what they then appeared to be, houses of considerable capital; and that even of those whose affairs shewed a less satisfactory aspect, many might, in course of a year or two, have regained their lost wealth.

The operation of the currency bill of 1844 had mainly contributed to bring about the panic which led to the disasters I have now glanced at. "Every one seemed affraid of his neighbour." * "There was a panic throughout the country: people thought they were in an iron cage, and could not get out of it: *that iron cage was the act of* 1844;" † —

* G. W. Norman, Esq. Lords' Report, 1848. No. 2702.

† J. Lister, Esq. Lords' Report, 1848. No. 2483.

and, in the opinion of Mr Tooke, the time was close at hand when "nobody would pay anybody,"*—the apprehension becoming general, that the reserve of the Bank of England would speedily sink so low that bank-notes would not be procurable in exchange for property, however valuable. The reserve of the Bank of England, in London, in notes, and gold and silver coin, had fallen, on 23d October, to £1,295,504,—that being the whole fund out of which they could have met a demand for private deposits, then amounting to eight and a-half millions. A run would, in all human probability, have followed in a few days; and the consequence would have been, that the Bank of England, with £8,500,000 of treasure in its issue department, would have been compelled to declare its inability to give its depositors gold, or even paper, in payment of the money that had been entrusted to its keeping. There were only two alternatives to choose between: the one was, to let the Bank of England swell the list of concerns unable to meet their liabilities; and the other was, to abandon the restrictive principles of the act of 1844. The latter course was urged upon government by the London bankers,—a deputation from whom waited on the Ministers on 23d October; and on 25th October, 1847, a letter was addressed to the directors of the Bank of England by the First Lord of the Treasury and the Chancellor of the Exchequer, "recommending to the directors, in the then emergency, to enlarge the amount of their discounts and advances on approved security;" but recommending, further, that "to retain the operation within reasonable limits, a high

* J. Lister, Esq. Lords' Report, 1848. No. 2483.

rate of interest should be charged," which they further suggested should not be less than eight per cent.; and engaging that, if the course recommended "should lead to any infringement of the existing law, her Majesty's government would be prepared to propose to Parliament, on its meeting, a bill of indemnity."

The most satisfactory results immediately followed. "The bank would have had to shut its doors in a week, unless the law had been violated;"* but, in the words of Mr Glyn, "the letter of the government abrogated the act, and stopped the crisis." † The feeling of alarm at once vanished; bank-notes, which, to extent of four to five millions (as estimated by Mr Gurney), ‡ had been hoarded, were immediately thrown into circulation. No increased issues were required; and, consequently, no infringement of the law took place; for the amount of notes in the hands of the public was quite sufficient to supply the whole wants of the currency, so long as confidence prevailed that more could be got if they should be needed; and the effect produced by the announcement, that notes could be got, if wanted—that is, that the "iron cage" had been broken—was instantaneous. On the Saturday before the Monday on which the government letter was issued, the great discount house of Overend, Gurney, and Co. "was largely called upon for money, not from any ground of distrust, but from an extreme doubt whether bank-notes were to be had at all." "On the Monday following," observes Mr Gurney, "we had again a

* J. Lister, Esq. Lords' Report, 1848. No. 2552.
† Lords' Report, 1848. No. 1734.
‡ Ibid. No. 1116.

demand upon us to extent of £200,000; but by one o'clock the government letter was announced. The effect was immediate. Those who had sent notice for their money in the morning, sent us word that they did not want it, that they only ordered payment by way of precaution. We only required about £100,000 in place of £200,000. From that day we had a market of comparative ease. The alarm lessened; and by the end of the week we had to ask, as a favour of the bank, to be allowed to repay the money which we had borrowed of them."

Was this catastrophe the consequence of want of capital or of want of money? It was maintained by one of the witnesses examined by the House of Lords' committee, and by one, too, whose high position as a banker, as well as a man of intelligence and talent, commands respect, that it was the consequence of want of capital; that "monetary derangement, arising from variations in the amount of our circulation, will never go to any extent in paralysing the trade of the country, or stopping the productive power of our manufactures. It is want of capital which alone produces these serious effects. What really produced a derangement of trade, and stoppage of transactions, in 1847, was the loss of capital, and the diversion of capital to other than trading purposes. It is impossible for a country to suffer in its harvest, as this country suffered in 1846, thus losing an important part of its wealth, and also to have capital drained from its trading operations to a large amount, as was the case during the last two years, without being seriously inconvenienced

by it. Persons attribute this inconvenience to monetary derangement; but the monetary derangement was one of the inevitable effects of these circumstances, and not one of the causes." *

It is said that the monetary derangement was, throughout this crisis, the consequence of the loss of capital, and of the diversion of capital to other than trading purposes; and, *to a certain extent*, the statement is true. It is a fact, that the loss of the harvest rendered necessary an importation of grain, which could be paid for only by an exportation of gold, from which again the derangement of the currency proceeded: and so it may be truly said, in a certain sense, that the monetary derangement was the consequence of a certain loss of capital; but, if it be asked, Was it a natural or necessary consequence of a deficiency in the harvest? the answer must be, that it was not; and that it was so only because the currency system was radically and essentially bad. This country suffered in its harvest in 1846, and thus "lost an important part of its wealth." True, an important part, certainly, but an exceedingly small part. The deficiency in the harvest of 1846 was estimated at about fifteen millions. A pretty large sum, considered absolutely; but altogether trifling when viewed in relation to the whole produce of the harvest, or to the capital with whose amount it falls to be compared—the former being estimated at 300 and the latter at 5000 millions: so that the loss, viewed with reference to the whole wealth of the community, bears no greater proportion than a loss of six shillings to one possessing £100, or a loss

* Lords' Report, 1848. Nos. 1584 and 1587.

of £3 to one whose whole capital is only £1000. But there does not appear to be anything in such a loss to make it necessary that the industry of the nation should be paralysed, and rendered unproductive; and the natural light in which to view it would be that in which the possessor of the capital of £100 would view his loss of six shillings—that is, that it was a very trifling loss, or, if he was unusually penurious, then, that it was a loss affording a reason why he should be unusually industrious and unusually economical, till such time as he should have replaced his lost shillings.

This, I think, disposes of the "important loss of wealth" through failure of the harvest. And then, as regards the capital invested in the construction of railways, if the amount of human labour devoted to the construction of these had been so great as to cause a diminished production of those manufactures with which our merchants are accustomed to supply foreigners in exchange for the raw produce, or other commodities we are in the habit of importing from their respective countries, then the drain of capital in question might, with some appearance of justice, have been set down as a cause of the subsequent disasters. But the actual state of matters shewed that there had been no diminution in the production of the goods with which our purchases of foreign commodities were made; the fact being, that in the year 1847 there was not a market in the world which was not deluged with British goods, and which did not continue to be overstocked with them for months, or even years, after. If such, then, was the over-production of our manufactures, as compared

with the ability of foreign markets to pay for them, what would have been the state of matters had a still larger proportion of our population been employed upon them? Evidently this—that the foreign markets would have been sooner overstocked—and overstocked to a greater extent—and so not only have caused increased loss to British merchants, but have postponed indefinitely the time when, through the clearing away of these overstocks, the markets should again become open to receive the products of our mills and factories; and that in the meantime increased suffering would have been the lot of nearly the whole community, and especially of the working classes. The difference as regards them would have been this—that while, in the one case, they were employed in the construction of works which will tend to promote the social and economical advancement of the British people so long as they endure—they receiving as the recompense of their labour ample supply of food and clothing; in the other case, they would have been dragging out an existence to themselves wretched—to their brethren of the human race utterly unprofitable—on the wilds of Connemara, or the glens of Lochaber; or, what is still worse, breaking machinery and burning corn-stacks on the plains of England. . . . .

The amount of capital expended on railways, between 1843 and 1847, was trifling when compared with the amounts expended forty years before in carrying on war. In the year 1814, the expenditure of the British government amounted to £101,738,072; and from 1809 to 1814, the mere military expen-

diture alone amounted to £348,557,438, being, on an average, £58,092,906 per annum, a large part of which was expended in foreign countries, and consequently was abstracted from the capital of the nation:* while the whole amount expended on the construction of railways, from 1843 to 1847, was only £170,062,233, being, on an average, £34,012,447 per annum—the population of the country having, in the meantime, risen from eighteen to twenty-eight millions, and the resources of the country having increased in more than equal proportion; and we may, accordingly, rest pretty well satisfied, that whatever may have been the cause of the convulsion of 1847, it was not that a certain amount of capital had been devoted to the construction of railways. The fact that numerous individuals had come under legal obligation to contribute to the construction of railways sums immeasurably beyond what they possessed, was sufficient to account for a great amount of bankruptcy and distress among individuals. But it gives no satisfactory explanation of the facts, that merchants in London, with £30,000 worth of silver on hand, were unable to borrow a few thousand pounds of bank-notes on its deposit; or that merchants and bankers in Liverpool, of great wealth and undoubted reputation, were in like manner unable to obtain money on security of bills whose value suspicion itself could not cast a doubt upon; and there is no way in which these facts can be accounted for, except the plain and obvious one, that the currency bill of 1844 had caused an injurious scarcity of money.

* Porter's "Progress of the Nation," sec. iv., c. iv.

It is undoubtedly true that the difficulty of borrowing, which so remarkably characterised the commercial history of the year 1847, might exist where there was no deficiency in the supply of circulating medium; and might be produced by a deficiency of capital, or, even in the absence of such deficiency, by a mere change in the ownership of the capital of a country from the hands of those who employed it in trading to the hands of those who employ it in business on their own account. Thus, if a comparatively poor community—such, for example, as that of Spain—were to undertake the rapid construction throughout their country of a network of railways like that which now spreads over Britain or America, the progress of the work would very soon bring about a similar difficulty of borrowing, from the inadequate extent of their floating capital, as compared with what was required for the completion of these works. And, again, if from the death of their present owners, or from any other cause, the thirty millions of deposits at present held by the Scotch banks, and the two hundred millions, or thereby, at present held by the English banks, were suddenly to become the property of individuals who were resolved no longer to lend their capital to others, but to employ it in manufactures or commerce for their own immediate benefit, then, without any diminution in the capital of the country, and without any increased necessity for it, the banks would be deprived of their power to lend, and the traders who had been accustomed to carry on their business on capital borrowed from them, would be exposed to the same difficulty in borrowing which was so uni-

versally experienced in Great Britain during the period under review; but in both these cases, the difficulty in question would be one beyond the reach of any mere currency measure to remedy or alleviate.

The considerations above stated seem to me to shew, clearly enough, that the convulsion of 1847 was the natural consequence neither of a deficient harvest nor of the construction of railways; and further, that it afforded no indication of a want of capital. But that it did not proceed from a want of capital is a fact put beyond the reach of doubt, by the circumstance that the mere announcement that government had authorised the Bank of England to increase their issues of notes, should it be necessary to do so, served to arrest the panic; and all the reasoning in the world could not prove more conclusively than this does, that the panic of 1847 arose, not from deficiency of capital, but from a deficiency of circulating medium or bank-notes. It is a thing unquestioned, that the appearance of the government letter of 25th October, 1847, did restore confidence, and allay the panic. But did it make any addition to the capital of the nation? Most assuredly not! What it did was simply to make it known, that, *on undoubted security,* paper-money should be procurable.

We have seen that even during the height of the panic there was no *absolute* deficiency of notes. The deficiency was only *relative;* and arose from the well-known fact, that the amount of a circulation is one thing, and its efficiency another—that is, that whether a certain amount of currency will or will not be suf-

ficient, depends entirely on the rapidity with which it circulates, that again depending on the degree in which mutual confidence exists in the mercantile community. During the period in question, the notes of the Bank of England in the hands of the public were not in *circulation;* twenty or twenty-five per cent. of their whole amount (according to Mr Gurney's estimate) having been hoarded,—the hoarding of money, that is, of the legal tender of the state, whether paper or gold, being one of the ways in which excessive alarm among the mercantile and banking classes always manifests itself. That the estimate of Mr Gurney was not an overestimate, is rendered probable by the state of alarm in which every bank in England must have been as to drains being made by their depositors; thus rendering it essential that a larger stock of Bank of England notes should at all times be kept in constant reserve. The Bank of Liverpool, who "ordinarily locked up with £30,000 or £40,000 at night, and considered that sufficient, because they knew that they could always go either into the money market or to the Bank of England and get a supply, if necessary, during the crisis, not knowing what bills might be returned upon them, deemed it necessary to reduce the accommodation to their customers, and to hold about £250,000 or £260,000, either in their vaults or at call, to meet unexpected demands:"*—and the rule adopted by the Bank of Liverpool would no doubt be followed by the other English bankers; so that, as the number of banks of issue alone in England and Wales, including head offices and branches,

* Wm. Brown, Esq., M.P. Lords' Report, 1848. No. 2264.

is not less than 800, five millions of notes would give but a very small average amount to each. The actual circulation was thus reduced twenty or twenty-five per cent. below its customary amount; and there is no theory which can view such an occurrence in any other light than as the inevitable source of great inconvenience to the community among whom it takes place, and as the sure cause of a great decline in prices.

But it may perhaps be said, that in Scotland, where there could be no hoarding of notes, there was also much distress, so that there the distress must have proceeded from want of capital, and not from want of money. I believe it is quite true that there was no hoarding of notes in Scotland, the circulation consisting entirely of the notes of the banks of issue belonging to that country, whose reserves, to meet sudden demands, are held chiefly in gold or Exchequer Bills, and, not like those of the English bankers, in Bank of England notes; and I believe it is also quite true, that the distress suffered there did not arise from want of money. Did it arise, then, from want of capital? By no means! What it arose from was this—and the same was, to a great extent, the cause of the corresponding distress in England—that three-fifths of their business was carried on upon borrowed capital; that they were in a constant state of alarm as to the hour in which sudden calls might be made upon them for payment of these three-fifths, all of which represented deposits payable on demand, and, as a necessary consequence, the money (capital) which in ordinary times they could lend out freely, they were now afraid to part

with, and so were obliged to refuse banking accommodation to all, or almost all, except those who were already in their debt, whose credit it was, of course, necessary to maintain, in so far as they could. Part of the evil here arises, no doubt, from the custom so universal amongst us, of all classes, whether bankers or merchants, trading to so great an extent on borrowed capital; but though this placed the banks in a more vulnerable position than they would have occupied had the capitals on which they respectively traded been all their own, still it does not alter the fact that the currency bill of 1844 was the originator of the panic, which, extending to Scotland, created an amount of mischief nearly as great, in proportion, as it had done in England. But neither in England nor in Scotland was there any deficiency of capital. Capital in abundance existed in both countries; but in England there was a scarcity of bank-notes, and the scarcity of these was the primary cause of a panic which, in England and Scotland, alike brought terror into the heart of every banker, fettered his operations, and produced damage incalculable among the mercantile and manufacturing classes of both kingdoms.

How great the damage was, so inflicted, it may be somewhat difficult to ascertain. In an article in the number for January, 1848, of *Blackwood's Magazine* —a work remarkable equally for the distinguished talent and the indefatigable industry with which it has advocated the cause of currency reform—it is estimated at three hundred millions sterling: the basis of its estimate being that, in 1845, the follow-

ing were worth the sums respectively placed against them, viz.:—

Funded property, ...	£800,000,000
Railway property, ...	100,000,000
Banking and other joint-stock companies, .	100,000,000
Capital invested in commerce and manufactures,	500,000,000
	£1,500,000,000

—the depreciation on which they reckon at one-fifth, or £300,000,000.

Now, with all deference, this is not the measure of the loss of the nation. It may represent truly enough the loss of individuals; but, in so far as it was loss to one class of individuals, it was gain to others: and the author of the able article in question has overlooked the fact that fluctuations in the value of money do not necessarily diminish the wealth of the people among whom they take place; they only serve to enrich the moneyed capitalist at the expense of the propertied capitalist, or the reverse, and to cause the capital actually existing in the country to appear in statistical tables at a greater or a smaller pecuniary amount, its intrinsic value remaining all the time unchanged. Funded property seems to have fallen in price to extent of fifteen per cent.* Railway property must have fallen in price to extent, on an average, of not less than fifty per cent. The stock of banking and other joint-stock companies may have fallen to extent of eighteen or twenty per cent.; while the fall in the money price of capital invested in commerce and manufactures—that is, in the price of commodities, raw and manufactured, of spinning-mills, weaving factories, and manufactories of one kind and

* *Infra*, page 304.

another—can hardly be taken at less than twenty-five per cent., so that the estimate overhead of one-fifth, or twenty per cent., does not appear an extravagant one. But was there any real loss of capital implied in all this? Most certainly not! The man who held an annuity from the nation of £1000, for which, it may be, he paid £33,000 before the crisis, may have been unable during its continuance to sell it at a higher price than £28,000; and so, if compelled to sell it, may have had to do so at a loss of £5000; but the real value of the annuity is in no way diminished. It is, in fact, very much greater than it was before, in as far as the increased value of money, indicated by the fall in the prices of all commodities, will give him, in exchange for his annuity of £1000, a command of all the comforts of life as great as £1100 or £1200 would have done before. So that the holders of the national funds are the last people in the world to be sympathised with under such circumstances; the real sufferers being the British people, who have still the same amount of annuity to pay after the crisis as before it, the value of the money in which it is paid having, in the meantime, risen ten or twenty per cent.

Railway property seems to have fallen in price to extent of probably fifty per cent.; but railways were not, on that account, the less valuable, nor was their capacity to promote the prosperity of the nation and the comfort of individuals in any way diminished. In so far as they were concerned, the capital of the country was as great after the convulsion as before it.

Banking companies must have suffered severely, and it cannot be denied that the capital of every

such institution in the three kingdoms must have undergone serious diminution. But this would not appear to have been the case with the generality of joint-stock companies. The works and machinery of gas companies, water companies, &c., were quite as efficacious in furnishing gas, or water, or whatever the article might be that they supplied to the public; while the cost of the coal and other materials required for the conducting of their several businesses having been reduced, and the prices charged for their gas, water, and so on, having remained unaltered, the immediate effect must have been rather to increase their profits,—there being, at same time, nothing to lessen the value or utility of their works.

So that, as regards these three items, I am inclined to believe that the loss really sustained by the nation was not great—being limited to the difference between the amount that may have been paid by the people of foreign countries for the government funds, railway shares, bank stock, &c., &c., and the amount for which they may afterwards have sold the same. Thus, the late Emperor of Russia, Nicholas, was said to have purchased, in the year 1847, stock in the funds of Great Britain and Ireland to extent of about five millions, in return for which it is probable he would, not very long after, obtain six millions sterling, or thereby—the excess of one million, or so, being thus gain to him and loss to the British people. But this is a loss of only one million, or little more: and (in the absence of any statistical information on the subject) I am inclined to doubt if the amount invested in British stocks, by all other foreigners, during the year in question, would exceed that

invested by the Russian Emperor; and I believe, accordingly, that the loss to the nation, by the sudden scarcity of money, and fall in prices of all descriptions of government, bank, and railway stocks, did not exceed two, or at most three, millions sterling.

As regards capital invested in commerce and manufactures—all buildings and machinery fell greatly in price, and cotton mills, and power-loom factories, and other such works, could, during the crisis, and for some time after, be bought at less than one-half of what they could have been built for. Here was a source of tremendous loss to those who were obliged to sell, but here was an equally great saving to those who had the means of buying. The loss of the one was measured exactly by the gain of the other; and, in so far as the nation was concerned, it was not a bit the richer or the poorer by the change in price—the value or utility of the machinery for the production of yarn, or cloth, and so on, being in no way diminished. Many such works were closed altogether, and ceased to produce, thus causing loss—the reason frequently assigned being the scarcity of money, or difficulty in obtaining banking facilities, arising from the operation of the currency bill of 1844. But though this was partly the cause, it was not the whole cause, and the remainder of it was to be found in the overstocked state of all the foreign markets which drew supplies from our manufacturers, for which the currency was not to blame. As regards the goods manufactured, the loss to the nation was much greater; in as far as every article of British production scattered over the globe, fell at once in price, in a ratio pretty nearly correspond-

ing, on an average, to the fall that took place at home, while in many cases the fall was very much greater; and it is here we are to look for the real pecuniary loss sustained by the British people through our periodical monetary convulsions.

I have already alluded to the well-known fact, that nearly nine-tenths of all the foreign trade of this country is carried on upon capital not the property of those by whom it is employed—the capital for conducting the operations being, for the most part, raised by discounting bills drawn by the shippers of goods to foreign markets, upon the representatives in London or elsewhere of the foreign agency-houses to whom the goods are consigned; the general arrangement being, that these bills shall be renewed for a specified period, or till the returns for the goods come home. Relying thus, as all foreign agency-houses do, on the ability of their constituents to renew their bills, no sooner does inability to do this become manifest, than the agency-houses at home immediately write to the foreign houses, with imperative orders to sell off the goods of the parties so failing to fulfil their bargain, and to send home the proceeds for repayment of the advances they have made upon them. So that, during a period of monetary panic in this country, every foreign agent, having charge of consignments from British merchants and manufacturers, is in daily receipt of orders to realise and remit. But their customers are quite as much alive to the state of matters at home as they are. Mr Cobden writes, that on one occasion, in the Ægean Sea, he observed signals made by Greek merchants on board to their

friends posted on a promontory of an island they were approaching, to give intimation that the Bank of England had raised its rate of discount. In other parts of the world the same sagacity is to be found as among the merchants of the Grecian Archipelago; and accordingly, no sooner does intelligence reach Calcutta, or Shanghae, or Valparaiso, or Rio Janeiro, that the gold is beginning to leave the Bank of England, or that there is a deficient harvest in Britain, likely to lead to an export of gold, or that the Bank of England has advanced her rate of discount, than the knowledge at once flashes on the mind of every native merchant that he is overstocked with British goods, and that it is impossible for him to buy another box or bale. They know that bills must be renewed in this country; they know that the beautiful currency system which provides that money shall be made scarce whenever the harvest is bad, will render the renewing of bills difficult; and they know, too, that they have only to exercise a little patience, to secure for them an abundant supply of British manufactures, at prices ten, twenty, or fifty per cent. below what they can be made for.

What the loss really sustained by British merchants, from the necessity under which they were thus brought by the panic of 1847 of forcing off their goods in foreign markets, may have amounted to, can only be guessed at; but I can believe it quite possible that it may have amounted to upwards of forty millions, which, added to the loss sustained upon different descriptions of British stocks sold to foreigners at the reduced prices which ruled during the

crisis, and added to the loss sustained on goods bought in this country by, or for account of, foreigners, during the period in question, would indicate a loss of capital to the British nation, through the crisis in question, of something like fifty millions sterling.

This appears a small loss compared with the estimate of three hundred millions, above alluded to; but I am inclined to believe that it rather overrates than underrates the loss actually sustained, which would thus appear not to exceed one per cent. on the whole capital of the country, estimated as it is at five thousand millions.

But they who look only at the loss of capital to the nation, look at that which forms but a small item in the evil that results from these currency derangements. The grand evil, beside which all mere pecuniary considerations sink into insignificance, is their moral influence, their deteriorating effect on the character of the people of this country, and their tendency to destroy their habits of steady industry and forethought, and to convert them into a nation of speculators, having for their motto, "Let us eat, drink, and be merry; for if we practice economy and self-denial now, the next crisis will bring us on a level with those who never recognised such virtues."

To return from this digression. The crisis was now over, the hurricane had passed by, and people were left in calmness to survey the devastation it had wrought. The conviction had now become almost universal, that the currency system of 1844 was not a system adapted to the wants of the British people, and committees were appointed by both Houses of

Parliament to "inquire into the causes of the distress which had for some time prevailed among the commercial classes, and how far it had been affected by the laws for regulating the issue of bank-notes payable on demand." The committee of the House of Commons issued a report, recommending the continuance of the bill of 1844 without alteration,—in opposition, however, to the opinions of the greater number of the witnesses who gave evidence before it. The committee of the House of Lords seem to have appreciated much more clearly the numerous imperfections of the bill in question; and in the able report they issued, they stated that they had "come to the conclusion that the recent panic was materially aggravated by the operation of that statute, and by the proceedings of the bank itself. This effect may be traced directly to the act of 1844, in the legislative restriction imposed on the means of accommodation, whilst a large amount of bullion was held in the coffers of the bank, and during a time of favourable exchanges; and it may be traced to the same cause, indirectly, as a consequence of great fluctuations in the rate of discount, and of capital previously advanced at an unusually low rate of interest."* But the hopes entertained that some change for the better would be made on the system were not realised, and the currency bill of 1844 is still the law of the land—though it would be difficult to conceive any measure the actual working of which could be more utterly at variance with the expectations formed of it than the one in question.

It was expected that excessive fluctuations in the

* Lords' Report, 1848.

bank's stock of bullion would be for ever prevented; and yet we have seen that in little more than seven months its treasure was reduced to the unprecedented extent of upwards of £7,000,000.

It was expected that excessive fluctuations in rate of interest would not occur, and in 1847 rates of interest fluctuated in a degree previously unknown. During the panic of 1825-26, bills of the highest class were negotiable at five per cent.; while at no time in these two years did interest fall below three per cent. In 1837, the lowest rate was three and a-quarter per cent., and the highest rate paid for first-class commercial bills was five and a-half per cent. In 1839, the lowest rate was three and three-quarters per cent., and the highest rate paid for such bills was six and a-half per cent.; while in 1847, interest was at one time as low as three and a-quarter per cent., and at another, the bills of the first merchants in the kingdom, endorsed by banks of great wealth, could not be negotiated at a lower rate than ten per cent. It thus appears that the extreme fluctuations were—in 1825, two per cent.; in 1837, two and a-quarter per cent.; and in 1839, two and three-quarters per cent.; while in 1847 the variation amounted to not less than six and three-quarters per cent.* It is true that, in each of the years now mentioned, commission was paid on the discounting of bills in addition to the interest above quoted; but, in the words of Mr Brown, "it was by no means to the same extent in 1837 and 1839 as it was in 1847."†

* William Brown, Esq. Lords' Report, 1848. No. 2308.
† Lords' Report, 1848. No. 2309.

It was expected that excessive fluctuations in the price of public securities would not occur, and yet, in beginning of 1847, consols were seen to fall nearly one per cent. per week for six weeks in succession,—having fallen from ninety-one and a-half, on 2d March, to eighty-six and a-half, on 15th April; while the extreme fluctuation during the year amounted to not less than fifteen and a-quarter per cent.—the difference between ninety-four, the highest, and seventy-eight and three-quarters, the lowest price. It is true, the fluctuation had, in some former periods of panic, been even greater, having amounted to sixteen and a-quarter, in 1825, and to sixteen and three quarters in 1839; but it was with the view of preventing such fluctuations altogether that the bill of 1844 was enacted; and this it failed to accomplish.

The promoters of the bill, unwilling to admit that it had failed to secure the objects aimed at, threw blame on the directors of the Bank of England for not having advanced their rate of discount when the drain began.* The censure, however, was unjust; as the directors had been previously told that all care of the currency on their part was needless, the self-acting apparatus of the new measure having been so constructed, as, whenever a drain should occur, to tighten the money market, so that interest should rise mechanically, and continue at an advanced rate till the return of gold should again make money abundant. Under such circumstances, the bank directors were altogether blameless in not rais-

* Speech of Sir Robert Peel in House of Commons.—*Morning Chronicle*, 1st May, 1847.

ing their rate of interest; and the insinuation that they had erred in not doing so, was a virtual admission that the self-acting machinery of the bill had proved insufficient to produce the effects expected to flow from it. But the expectation that the act would operate in producing an immediate contraction of the currency, whenever bullion should begin to leave the country, was founded on an utter forgetfulness of the principle that in a country whose issues of money are wholly, or chiefly, made through banks, no addition to the currency (that currency being already sufficient) can be absorbed; or, in other words, that the circulation does not admit of artificial increase. The promoters of the bill fancied that every importation of gold,—forming, as the provisions of the bill caused it to do, the basis of increased issues of Bank of England notes,—would swell the circulation, and have a direct and immediate effect in raising prices of commodities, (while, with inconsistency truly marvellous, they propounded it as a measure to prevent speculation!) and that, on the other hand, every exportation of gold, by returning to the issue department notes of equal value, would contract the circulation and reduce prices. But the working of the bill taught,—what sound theory led to the expectation of,—that issues of notes so made would not swell the circulation; and it was seen accordingly that the expansion and contraction in the "circulation" were confined within the walls of the bank—the increased issues of the issue department serving only to swell the stock of unemployed notes in the banking department; shewing clearly the worthlessness of that machinery which, in the

separation of the Bank of England into two departments, was blazoned forth as certain to produce "an early and timely contraction of the circulation —founded on principle—certain in its effect—always under control—its nature and its effect known to everybody." *

The variation in the amount of the bank's actual circulation has been generally very trifling,—the scarcity of money felt during the periods of greatest pressure having been the consequence, not of a diminution in the quantity of notes in the hands of the public, but of a diminution in mercantile confidence. And thus, when the opponents of the bill accused it, in 1847, as being the cause of a *contracted circulation*, they were met by Sir Charles Wood, the then Chancellor of the Exchequer, with the answer —"It is not so; the circulation is equal to the usual average." The notes were sufficient in amount, had they been circulating with their usual rapidity; but they were hoarded, not circulated. The fear was general among those who held notes, that if they parted with them, they might not be able to get them back when they should come to need them; and so no one, getting notes, would give them away till the necessity of fulfilling his obligations compelled him to do it. The circulation during the extreme pressure of 1847 was *absolutely* large, and only *relatively* small,—amounting, as it did, to about twenty-one millions; while, in a few months after, the circulation had shrunk to about seventeen and a-half

* "Thoughts on the Separation of the Departments of the Bank of England." London, 1844.

millions, which, confidence having returned, was more than the wants of trade required.

The panic having abated, the Bank of England reduced its rate of interest on 22d November, 1847, to seven per cent.; on 2d December, to six per cent.; on 23d December, to five per cent.; on 27th January, 1848, to four per cent.; on 16th June, to three and a-quarter per cent.; and on 2d November, to three per cent. Gold had continued to flow in, and so money again became abundant, and rate of interest low; and, after a time speculation was resumed, almost as wild as the railway speculation that had preceded the crisis of 1847, but in the more recent case directed chiefly to the shipping of goods to foreign markets, and especially to the Australian colonies,—the gold discoveries of which had attracted the notice of all the world—the speculation being as widely diffused through the population of this country as the speculations of any former period, being distinguished by equal blindness, goods having been sent with as little regard to quality as to quantity, the prevailing notion appearing to be, that nothing could go wrong, and that it was impossible to send too much.

The events in question are of too recent occurrence to render it necessary for me to go into any detail regarding them. The speculation was accompanied by great apparent prosperity, which led to increased consumption, and to advanced prices of foreign produce; while in foreign countries no corresponding advance was obtained on the prices of our manufactures sent to them for sale; the balance of trade became unfavourable; the foreign markets were de-

luged with our productions; they would take no more; gold alone they would take in payment of the balances owing to them; the bullion in the Bank of England diminished; alarm was created; money became scarce, and the hollow character of a great proportion of the prosperity which formerly seemed real, was now made apparent, and was proved to have been the result of blind speculation, prompted by abundant money and low rate of interest; these, again, being the necessary results of the operation of the currency bill of 1844, which provides that when the exchanges are favourable, confidence high, and little money needed, then money is by every possible effort to be made more and more abundant. The crisis that followed in 1854 does not appear to have been distinguished by the intensity of pressure observed in 1847; and it is probable that the reaction will be, on that account, the more rapid, though what may be the course which the next general speculation will take, is still hid in the womb of futurity.

But the pressure was not so severe as that of 1847,—and it may be well to inquire as to the reason why it was so; which I take to have been the consequence of the greatly increased supplies of gold, preventing that exhaustion of the Bank of England's stock of bullion which took place in former periods of panic; while it may also be well to inquire what effects, as regards the monetary system of the United Kingdom, are likely to flow from the great addition now constantly being made to the stock of that metal. These appear to me to be two in number—the one, that it will cause the issue department of the Bank of England to be no longer a

source of gain to that establishment; and the other, that by causing money to be more and more abundant, it will tend more and more to promote speculation, and cause fluctuations in general prices, even more excessive than have hitherto prevailed. A notion has long been, and still is, pretty widely entertained, that even under a currency system such as exists in this country, the prices of commodities depend on the cost of producing gold; and that, apart altogether from any increase in the quantity of money, a diminution in that cost would tend immediately to bring about an advance of prices;—a notion which I hope it will not be deemed presumptuous if I pronounce it to be utterly visionary and worthless. The *supply* of any commodity may be affected by a fall in the price below cost of production, but in determining the exchange-value or price of an article, the cost of production forms no element; and we may rest fully assured of this, that when an advance of prices happens to succeed an extensive importation of gold, it is not because the metal comprised in that importation was produced at a smaller expenditure of labour, but solely because it has been the means of bringing about an increase in the quantity of money held by people in this country, and consequently a fall in the rate of interest, and increased facility of borrowing,—thus leading to speculation, which, in its turn, becomes the cause of prices rising to a higher level, in the case of the articles on which the speculation may be directed. The greater the supply of money is, the greater will be the facilities of carrying on speculative transactions; the higher, in all probability, will the elevation be to which prices

will thus be raised; and the greater, accordingly, will be the fall, when the speculation fails, and reaction takes place.

Under the present law, every ounce of gold imported into Britain may be said to form an addition to the currency; and I think it must be apparent to every unprejudiced mind, that additions to the currency of any country beyond what can be absorbed in its circulation, are the sure forerunners of speculation,—tending, as they inevitably do, to make money borrowable more easily and on lower terms. It seems probable, however, that the increased supplies of gold —though they will tend not only to give increased wildness to the spirit of speculation, and to cause a wider range between the prices prevailing before the collapse, and those to which they will sink after it, thus infusing still more of the lottery into trade—will tend to prevent that excessive scarcity of money which we have seen, on so many occasions during the last sixty years, to have been the cause of much suffering to the people of this country; or, in other words, will tend to make the crisis caused by the collapse of speculation, to fall with less intensity on parties engaged in departments of business unconnected with those in which the speculation may have prevailed: the reason being, that the stock of gold will hereafter, in all probability, be so large that no exportation ever required for the adjustment of an unfavourable balance of trade, will be sufficiently great to reduce that stock to such a point as to render necessary a contraction of the circulation, or even (what is nearly as bad) to create much apprehension of it. This last feature will be decidedly advanta-

geous, as, in all times bygone, the evil has fallen with almost as much intensity on those who never deviated from their legitimate business, as on those who were concerned most deeply in speculation,—the evil being that, however undoubted might be the security one might be able to offer, money was, in very frequent instances, absolutely unprocurable. But the advantage resulting from this will be but a small compensation for the evil likely to flow from the increased supplies of gold (and consequently of money) in the impetus which they cannot fail to give to speculation, and in the still more gambling and hazardous character which, presuming the present currency system to be continued, they will inevitably confer on every branch of commerce.

I have now completed my proposed sketch of the commercial history and currency systems of the United Kingdom during the last sixty years; and though very imperfect, I think it must have served this end—that no one can have perused it without arriving at the conclusion, that during no part of that period has the currency system prevailing among us been such as a friend of his country could wish to see perpetuated.

The system which prevailed from 1797 till 1819 was bad, as is shewn by the constant vicissitudes of the money market—money being at one time abundant, and speculation rampant; and at another time scarce, and panic stalking abroad. The system which prevailed from 1819 to 1844 was worse: in as far as it tended to increase the fluctuations of the currency, by making gold its standard, and thus causing it to contract as gold flowed out of the country;

while the system introduced in 1844, by causing every importation of gold to expand the currency, and every exportation of it to contract the currency, thus causing variations more sudden and more extreme than previously, and by removing, at same time, from the hands of the directors of the Bank of England that relaxing and counteracting power which they had often exercised with essential benefit to the British people, seems to have sunk deeper and deeper still—so as to create the idea that nothing worse can be devised, and to encourage the hope, that, having arrived at the worst, things will now mend.

Never, in the history of man, was any measure ushered in with more flaming pretensions than the currency bill of 1844, and never was there a measure which more signally failed to realise them. Colonel Torrens, one of the principal originators of it, announced it to the world as a measure which would "effectually *prevent* the recurrence of those commercial convulsions, those cycles of excitement and depression, which, as Mr Loyd has so felicitously explained, result from the alternate contraction and expansion of an ill-regulated circulation." And how has it operated? Has it prevented the recurrence of commercial convulsions? Eleven years have passed since it became law, and during that time we have had two convulsions. From 1819 till 1844, there were three convulsions, being, on an average, one every eight and a-third years. Under the new regulation we have had one in every five and a-half years. There is thus no improvement as regards frequency; and the most trustworthy evidence seems

to assure us, that, as regards intensity and duration, there is none either. In this first point, experience has proved the hollowness of its pretensions.—It was to put a check on improvident speculation: there it has equally failed. Speculation never was carried to a greater height than in 1846 and beginning of 1847; and though of a different character, the speculation of later years has been scarcely less extravagant.—It was to guard against fluctuations in rate of interest: here no better fortune attends it. In 1847, the fluctuations in rate of interest were nearly three times as great as they were during the panics of 1837 and 1839, under a system on which the present was sent forth as an improvement.—It was to diminish bankruptcy: but, alas! the years 1847 and 1854 saw an amount, as regards both number and extent, which no former panic can surpass.

In conclusion, the eleven years' trial of the currency bill of 1844 has served to convince every intelligent man, who has had opportunity of witnessing its operation, (special exception, of course, being made of those who, having predicted its success, are blindfolded by "consistency"), that it has proved an utter failure; that in place of diminishing speculation and fluctuation, it has done all that any currency measure could do to increase these evils; and, in a word, that it is a measure erroneous in theory, and in practice utterly unsuited to the wants of a great commercial people; a measure than which none ever afforded more signal confirmation to the truth of the profound remark of the first great Napoleon, that "if an empire were made of granite, political economists would soon reduce it to powder."

LETTER

TO

THE DUKE OF ARGYLL.

LETTER TO THE DUKE OF ARGYLL.

My Lord Duke,—In the address you lately de-delivered to the students of the University of Glasgow, on the occasion of your inauguration as Lord Rector of it, you directed their special attention to the subject of political economy, as one to a great extent still unexplored, and as offering a wide field for investigation and discovery. The remark I believe to have been prompted by a well-grounded conviction, on your part, of the fallacious character of much that has been written by those calling themselves political economists. The subject in question is one to which I also believe you have devoted that attention which its importance entitles it to; and I expect, accordingly, that a communication professing to illustrate any of its departments, will be not unwelcome to you, and will receive from you a ready appreciation of its merits—if such it shall be found to possess.

Were my communication one of a merely speculative character, the above would form my apology for addressing your Grace; but I may add, that I have another reason for doing so; and I will frankly confess that I entertain the hope that my communi-

cation will be found to contain some practical suggestions, important not only to the British nation, but to the whole human race; and I dedicate it to you, accordingly, in token of respect for the high intellectual qualifications which have placed you in the distinguished position you occupy in her Majesty's councils, and for the honoured name which you so worthily bear—a name illustrious in the annals alike of Scottish and of British history.

When perusing, some time since, the minutes of evidence appended to the report published by the secret committee of the House of Lords appointed to inquire into the causes of the commercial distress of 1847, and how far it had been affected by the laws for regulating the issue of bank-notes payable on demand, I observed two questions of a very important character: the purport of the one being, Could the witness conceive any alteration in the banking system of this country which would prevent a total or partial failure of the harvest being attended with severe pressure on the mercantile community? and that of the other, Could he conceive any alteration in the banking system of this country which would prevent that redundancy of money which the evidence laid before the committee had clearly indicated as the main cause of the overtrading and rash speculation by which the year 1847, and a few years immediately prior thereto, had been distinguished? and the answer to each was, if I recollect rightly, in the negative. The witness did not conceive it possible so to arrange our currency system that a failure of our harvest, total or partial, should cease to be a

source of pressure on the mercantile community, such as had existed in the year just gone by; nor, so to adjust the supply of money to the exact necessity for it, as to prevent the existence at one time of a superfluity, directly tending to overtrading and rash speculation, and at another time, of a deficiency of it, as directly tending to diffuse panic and to destroy mutual confidence among merchants.

The soundness of the opinions so expressed I feel bound to call in question.

As regards the former—I can easily see that a failure of the harvest in this country must be the source of a certain amount of suffering: first, to the agriculturists, who are thereby exposed to loss, to extent of the difference between the nett price obtained for the surplus produce of the harvest, and the nett price that might have been obtained for it, had it been an average one; and, second, to the individual members of the community, who are thereby exposed to loss, to extent of the difference between what they pay for provisions and what they should have had to pay had the harvest been an average one; and, third, to the nation, viewed as a corporate body, who are thereby exposed to loss, to extent of the whole amount paid to foreigners for cost and carriage of provisions, beyond what would have been payable had the harvest been an average one,—allowance being made for the profit realised by members of the nation on the excess of goods furnished to these foreigners, beyond what would have been furnished had there been no unusual importation of provisions; and also for the profits realised by members of the nation on the provisions imported; and

addition being made, or not being made, to the loss, for the expense of bringing home in British ships the provisions so required, accordingly as the men and the capital employed in the conveyance would, independently thereof, have been employed or have been idle :—but this, I think, embraces the whole amount of damage arising to the nation, and to the individual members of it, from the calamity in question; and I am inclined to believe that there is nothing in it to lead to the fearful mercantile convulsions which we have so frequently seen to follow a deficient harvest,—so frequently, indeed, that we have learned to associate the one with the other, and to fancy that the one is an inevitable consequence of the other, in place of being, as it is, only the consequence of the miserable currency system under which this country has so long groaned. Experience has not taught us that a loss of capital through the ravages of fire, or earthquake, or shipwreck, has any effect in deranging the manufacturing and commercial industry of the people; and neither would a loss of capital through the unfavourable out-turn of the harvest have any such effect, except for two monstrous delusions still prevailing amongst us—one, that the presence of a certain quantity of gold is essential to the welfare of the nation; and the other, that the best way to secure its presence is to adopt a course of procedure whose necessary consequence is to spread panic and bankruptcy over the length and breadth of the land.

As regards the latter opinion, so far from its being *impossible* so to arrange our currency that money shall never exist in excess of what the wants of the

community demand, it appears to me that so to arrange it is a matter of very easy attainment, and that a system may be found of the most simple character, the adoption of which, by any country, will effectually protect it from all the evils which so extensively flow from variations in the amount of its currency, by securing for it a currency defended equally against redundancy and against deficiency; and to lay before you the details of such a system, is the object with which I now address your Grace.

If this communication had been designed for your perusal alone, I would have considered a very few preliminary observations all that was required before proceeding at once to lay these details before you; but it is designed also for the perusal of the general public; and believing, as I do, that the subject is one as to which the great mass of the people are still wandering in the very valley of darkness, I have thought it well to preface it with some chapters explanatory of the nature of capital, and of money, and of the difference between the two. In place, however, of incroaching on your time by referring you to these, I will lay before you a brief outline of their general scope, and of the conclusions arrived at from the facts enumerated in them.

In the introductory chapter, I have pointed to the fact that the commercial history of this country, for the last sixty years, has exhibited an unvarying series of cycles, distinguished alike by two remarkable features—one, the prevalence of great mutual confidence among merchants, leading to speculation, and advanced prices of commodities; and the other, that of extreme want of confidence, leading to a rapid

fall in the prices of commodities from the height to which the previous speculation had raised them. I have proposed as subject of inquiry, whether such state of things is natural or artificial; and, observing that the former, or speculative period of the cycle, is always accompanied by an excess of money beyond what is required for conducting the operations of commerce; and that the latter, or panic period, is always distinguished by scarcity of money, as compared with what is necessary for that purpose, I have suggested as subject of consideration, whether such alternate over-supply or short-supply of money be not the consequence of a defect in our currency system; and, as the best means of obtaining distinct views on that subject, I propose that inquiry should be made into the nature of capital and of money, and the difference between the two.

In the next chapter, I have endeavoured to explain the nature of capital,—the main object I had in view being to guard the reader against the error frequently fallen into, of confounding money with capital. I have stated that capital consists only of commodities; and that what is called *moneyed capital*, and what is called *propertied capital*, are one and the same thing: the difference between the propertied capitalist and the moneyed capitalist being simply this—that, while the former holds title-deeds of real or heritable property, the latter holds mortgages; while the former has moveable or personal property in his shop or his warehouse, the latter holds the personal obligation of the former that he will account to him for a certain portion of its proceeds; but that

money is not capital, and that the delusion by which it has come to be regarded as such, has been productive of a greater amount of evil, and has done more to damage the morality of the Anglo-Saxon race in Britain and America, and to retard their social progress, than all the other errors of political economy—theoretical or practical—put together. I have stated that money bears the same relation to the capital of a nation that railway-tickets bear to the capital of a railway company. That the real uses of money are—to indicate the different degrees of estimation in which different articles are respectively held, and to serve as a medium for facilitating the interchange of commodities; that a disregard of this fact, and the consequent confounding of money with capital, has formed the basis of all currency mismanagement; and that it is the duty of every civilised government to provide the supply of money necessary for these purposes—that is, to provide neither more nor less than is required, but so to regulate its issues that no one possessing capital should ever need to want money—that is, that the transactions of commerce should never be suspended from the mere want of the instrument of exchange, or circulating medium; while, on the other hand, no one should require to pay interest for one money-token more than a regard to his own advantage induces him to retain in his possession.

In the next chapter, I have endeavoured to trace the origin of what we have generally been accustomed to call money—that is, of the custom of using one commodity as the measure by which the values of all other commodities are estimated; and I have

endeavoured to illustrate the effects arising from an increase in the quantity of money in any country, by shewing how it would operate in two imaginary communities, among one of them the custom of lending at interest being unknown, but the other possessing banking institutions, and having all, or nearly all, their issues of money made through the medium of these; and from the sketch so given, I have drawn the following conclusions:—

First, That the notion entertained by Mr Hume, and which has been very generally adopted by subsequent writers, that an increase in the quantity of money in any country will, under all circumstances, have the effect of raising prices of commodities, and of lowering the value of money in that country, so that the increased quantity shall possess a total value exactly the same as was possessed by the smaller quantity previously existing, the value of every individual piece of money, be it gold, silver, or paper, being diminished in a corresponding ratio—holds good only in the case of communities among whom the custom of lending money at interest does not prevail; and that, where the custom of lending money at interest does exist, an increase in the amount of money will not directly affect prices of commodities, and will indirectly tend to raise them only in so far as it may have the effect of giving a stimulus to speculation.

Second, That the notion held by Mr Hume, and which has been adopted by, I believe, all theoretical economists since his time, that an increase or a decrease in the quantity of money has no effect in lowering or raising the rate of interest, is erroneous.

Men of practical observation have always known it to be so; and I have exhibited the false reasoning by which Mr Hume sought to prove that a change in the quantity of money *should* have no effect on interest, and have shewn that his error lay in confounding change in quantity of money, with change in value of money, and in supposing that because the latter, as was evident, could have no effect on interest, therefore the former could have none either.

Third, That the notion held by Dr Adam Smith, that any addition to the money of a country, its circulation being previously sufficient, will not be absorbed in its circulation, but will at once overflow, without producing any effect in raising prices of commodities or lowering interest of money, is partly true and partly false; and further, that if the part of it which is false had, as he supposed it was, been true, then that which is true would have been false likewise. In other words, it is untrue that an increase in the currency will have no effect in raising prices or lowering interest; and if it had been true that it would have no such effect, then it would not have been true that an addition to the money of a country would overflow—because, as I have explained, it is only in virtue of its effect in raising prices and in lowering interest that such overflow can be brought about. It is undoubtedly true, however, that no addition of money to a currency, already sufficient, can be absorbed in it; that the notion entertained by Mr Ricardo, and presumed by the framers of the currency measure of 1844 to be sound—namely, that any amount of additional issues may be

absorbed in the circulation of a country—is an utter delusion; and that, on the contrary, such addition cannot be absorbed, but will continue to float, as it were, over the channel of circulation, forming a redundant currency, lowering interest, promoting speculation, raising prices, forming a constant source of dissatisfaction and loss to those on whom this redundant money has been palmed, in exchange for real capital; and leading, in the end, to an enormous amount of evil, and that, too, without one grain of counterbalancing advantage, except the profit that may be made from interest on the redundant issues by the bank which made them—an individual profit bearing about the same proportion to the general loss as a bucketful of water bears to the mass of the ocean. And under this head I have endeavoured also to refute the error of those who maintain, with Mr Tooke, that increased issues of money, and the two conditions immediately resulting therefrom—namely, reduced rates of interest and increased facilities in borrowing—have no effect in promoting speculation or raising prices; and to shew that the belief, almost universally entertained, that increase of money does tend to promote speculation and raise prices, is consistent not only with observed facts, but with sound theory.

Fourth, That the notion pretty extensively prevailing—not in this case among theorists, but chiefly among practical men—that what they call a sufficient (that is, a redundent currency) is more favourable to commercial prosperity than what they call a "contracted" currency, is altogether delusive; that neither an expanded nor even an expanding

currency has any really beneficial effect beyond what a merely sufficient currency would have; and that the *apparently* beneficial effects that flow from the former are limited to this—that they serve to enrich the propertied capitalist at the expense of the moneyed capitalist, and to alter the proportions in which the capital of the country is divided between them: the gain that accrues to the former, through the fall in value of money, being exactly balanced by the loss which therefrom results to the latter.

And the practical conclusion I have come to from the whole survey is this—that all variations in the currency are productive of evil;—not that, as some theorists have imagined, the amount should be fixed irrespectively of the duties to be performed by it; but that it should be so regulated as to maintain one uniform and unvarying relation to the extent of duties devolving upon it,—that is, that it should be never deficient as regards these, and never redundant, but should increase as the wants of the community increase, and be instantly absorbed when the wants of the community for it have so contracted as render a smaller supply sufficient.

The next chapter is devoted to consideration of the question, how far the currency system of Great Britain, now or heretofore existing, possesses or possessed the qualifications above detailed as essential to a proper currency system; and in the prosecution of this inquiry, I have given a general outline of the commercial history of our country for the last sixty years, the leading inference therefrom being this, that it has consisted of a series of cycles, each being distinguished at one part of its progress by a superabundance of money, and by its concomi-

tants—low interest and rash speculation; and at another, by deficiency of money, and its concomitants—panic and bankruptcy.

The period in question naturally divided itself into two portions,—the one ending with the return of the Bank of England to specie payments, and the other extending from that to the present time.

In treating of the former division, I have made allusion to the discussion which has arisen from the question, whether the currency during the continuance of the bank restriction act was or was not depreciated. I have referred to Mr Tooke's very admirable "Thoughts and Details on High and Low Prices," as most unanswerably establishing the fact, that the high prices which during that period prevailed, in some articles, were the result, to a great extent, in every case, of diminished supply or increased consumption, (the speculation thus directed to them being encouraged and rendered wild through the operation of a redundant currency), and as rendering unnecessary any further remark from me on the subject. But as regards the question whether the high price of gold which prevailed during almost the whole of that period, was the result of scarcity of that article, or, as was held by the Bullion Committee, of excessive issue of Bank of England paper, seeing that Mr Tooke has not considered it, (or in so far as he has done so, has done it from what appears to me to be an erroneous point of view,) I have thought it well to examine the arguments by which it was sought to be proved that the high price was the result of over-issue of Bank of England notes; and the result of the inquiry has been to produce on my mind the conviction that the arguments so

used were of a singularly fallacious character, and utterly insufficient for the proof they were intended to afford; and that there is nothing in the history of the period to warrant any other conclusion than that the high price of gold was really the result of scarcity, and that the issues of Bank of England notes were no more excessive than they have been in every time of mercantile confidence for a hundred years back, during the whole of which, and a good deal longer, they have always been either deficient or redundant.

I have alluded to the excessive vagueness with which the term "depreciation of the currency" has been always used, (except by those who, like Mr Tooke, use it merely to denote the difference between the mint and the market price of gold), and to the impossibility of forming any correct opinion as to whether the currency at any given date is, or is not, depreciated, unless the precise dates be given with reference to which the depreciation is averred; and I have shewn that, so far from the currency having been permanently depreciated during the period of the bank restriction act, there must have been many occasions during its progress when, so far from having been depreciated, it must have been very much appreciated, as regards the currency of previous and subsequent dates,—the peculiarity of the monetary systems which have hitherto existed in the world, and especially in this country, being their liability to continual vicissitudes, so that prices are at one time raised, and at another time depressed, to an extent not warranted by any change in the relation between supply and demand in commodities.

And, further, I have ventured to express doubts

as to whether the application of the term "depreciated," to a currency such as that of Great Britain has been for the last hundred years, be not altogether objectionable; and whether, when a currency has for a lengthened period consisted almost entirely of money issued by bankers on loan, to borrowers paying interest for the loan of it, it has not come to form, in the long run, a mere scale of value, an index shewing the estimation in which different commodities are respectively held,—having ceased, as under these circumstances it undoubtedly does cease, to influence prices directly, or to raise or depress them, (which, under a system destitute of banking institutions, it would do, in exact accordance with the increase or diminution of its quantity), prices henceforward depending no longer on the quantity of money existing, but solely on the relation existing for the time being between the supply of, and the demand for, commodities with regard to each other, and increase in the quantity of money having no effect in raising prices, except in so far as it may give an impetus to speculation, the rise of prices resulting from it being always exactly balanced by the fall that succeeds its collapse;—considering these things, I have come to the conclusion that the term "depreciation" is inapplicable to the currency of the period in question, or to that which now exists amongst us; that these currencies have ceased to be susceptible of depreciation; that redundancy of them may encourage speculation, and thereby *temporarily* raise prices; that deficiency of them may create panic, and thereby *temporarily* depress prices; but that no increase in the amount of the currency will be of any avail in raising the average level of prices, as prevailing through a

series of years; and that, in fact, the currency then was, and now is, what philosophers have for a hundred years, or longer, been seeking to discover—a *scientific currency*, defective only in the want of absorbing apparatus, and requiring nothing beyond the addition of such apparatus to render it almost a complete and perfect system.

In treating of the second division of the period in question, namely, that extending from the resumption of specie payments to the present time, I have given a general outline of the changes in the laws for regulating the issue of bank-notes, and have directed special attention to the currency measure of 1844. I have compared the pretensions with which that measure was brought forward with its actual performance. I have shewn that, in place of preventing alternate expansion and contraction of the currency, it has caused these alternations to be more frequent than they were under the system previously existing; that in place of checking speculation and panic, it has served to aggravate them; and the general conclusions to which a full consideration of the measure has irresistibly led me are—that it is erroneous in theory, and in practice utterly unsuited to the wants of a great commercial people.

Having thus arrived at the conclusion, that the currency system at present existing in the United Kingdom is unfitted for the purpose it is meant to serve, varying in amount, as it does, irrespectively of the extent of business to be conducted by it, contracting, when the necessities of business call for an expansion and expanding when observation tells that it is already redundant; and having arrived at the further conclusion, that that purpose cannot be pro-

perly served by any currency whose expansion or contraction depends on the scarcity or abundance of any one article of merchandise, in place of depending on the extent of the operations to be carried on by means of it,—it was my intention to proceed, in the next chapter, to inquire how a currency might be best constructed to answer the end in view, that is, to maintain one uniform and unvarying relation to the extent of duties devolving upon it; and as a satisfactory means of doing this, I proposed to take as the basis of my inquiry, the fact that, among the Carthaginians, a currency system of a scientific character seems to have existed, and to endeavour to trace the succession of steps by which they may have advanced from the rude system of direct barter to that more refined system of abstract money. But, considering that the present age is one holding practice in higher esteem than theory, I have thought it judicious to dispense with this theoretical investigation, and to content myself with detailing merely the result to which it brought me: and I will now, accordingly, without further preface, proceed to lay before your Grace an explanation of the plan by which I propose to remedy the defects of our present system, and to secure for the British nation a currency of a simple and rational character. The way in which I propose to do this, is to lay before you a draft of an act (which I hope, at no distant date, to see introduced into Parliament by your Grace); and though this may seem a somewhat circuitous course, I believe I shall thereby succeed in conveying a clear and distinct idea of the plan more easily, and within a smaller compass, than I could hope to do by attempting to give a general description of it.

DRAFT OF A PROPOSED ACT

FOR THE

ESTABLISHMENT OF A NATIONAL BANK,

AND FOR

BETTER REGULATING THE CURRENCY OF THE UNITED KINGDOM.

WHEREAS serious injury has occurred to the people of this realm, from fluctuations in the amount of currency therein, and whereas it is desirable that the amount of currency in the hands of the public should, at all times, bear one uniform relation to the necessity existing for it, Be it therefore enacted, by the Queen's Most Excellent Majesty, by and with the advice and consent of the Lords Spiritual and Temporal and Commons, in this present Parliament assembled, and by the authority of the same, as follows:—

The privilege of issuing bank-notes now enjoyed by various banks to cease.

I. That, at twelve o'clock on the night of Wednesday the thirty-first day of December, one thousand eight hundred and fifty-six, the privilege hitherto accorded to the Bank of England, the Bank of Scotland, the Bank of Ireland, and various other private, chartered, and joint-stock banks, and banking companies throughout the United Kingdom, of issuing that description of notes or bills, payable to the bearer on demand, commonly known as bank notes, shall cease: and that any banker thereafter issuing such note or notes, shall thereby subject himself to a penalty of per cent. on the amount of notes so issued.

A National Bank to be established:

II. That, with the view of affording a supply of

money for circulation throughout the kingdom, a National Bank shall forthwith be established, under the title of "The National Bank of the United Kingdom of Great Britain and Ireland."

To be managed by officers to be appointed by her Majesty,

III. That this bank shall be managed by a Cashier, Accountant, and such other officers as her Majesty shall see fit to appoint, which officers so appointed by her Majesty shall be bound to conduct the affairs of the bank, under the superintendence and control of a Committee, which Committee shall consist of a President, to be chosen by her Majesty, and of twelve Commissioners, to be chosen by the members of the House of Commons,—all from among the members of that house.

under superintendence of a committee of Parliament;

to whom they shall be responsible;

IV. That the officers of the bank, though appointed by her Majesty, shall be responsible for the due discharge of the duties devolving upon them respectively, to the foresaid Committee, which Committee shall alone have the power of depriving said officers of their several appointments: it being specially provided that any officer, so deprived of his appointment, who shall consider himself aggrieved thereby, shall have liberty of appealing from the judgment of said Committee, to that of the House of Commons, who shall have power, should they see it fit, to restore said officer to the appointment of which said Committee shall have deprived him: and, further, that any officer who shall so have been deprived of his appointment, and shall not have been restored to it as aforesaid, shall thereby be rendered disqualified from holding any appointment in said bank, without the special consent of said Committee: Provided always that nothing herein contained shall be held as in any way interfering with the right of her Majesty to remove any officer of the bank from the office that may be held by him, to any other office of which the emoluments shall be equal to those of the office held by him at date of said removal, or which he shall be willing to accept in lieu of the same.

and who alone shall have power to deprive any officer of his appointment;

any officer so deprived having right of appeal to the House of Commons;

her Majesty alone having the power of promoting from one office to another.

V. That of the thirteen members of said Committee, the President shall hold his appointment during her Majesty's pleasure; and of the other twelve members, four shall retire on the first day of January, in each successive year, whose places shall be supplied by new members, to be chosen by the House of Commons, as aforesaid, and who shall not be eligible for re-election till expiry of twelve months from the date on which they shall have so retired: it being specially provided that at each election of members of said Committee, the member having fewest votes shall have his name placed at top of the list of members; that the member having most votes, shall have his name placed at bottom of the list of members; and that those having intermediate numbers of votes, shall have their names placed on the list intermediately—those with fewer votes being placed higher, and those with more votes being placed lower: the members periodically to retire from the Committee being always those whose names shall stand highest in the list of members: And, in event of any member of said Committee ceasing to be a member of the House of Commons, he shall cease to be a member of said Committee, and a new member shall forthwith be chosen in his place; he continuing, however, to be a member until such time as said new member shall have been chosen: And, in event of a dissolution of Parliament, the Committee shall continue unchanged till a new House of Commons shall have been convened, when new members shall, forthwith, be chosen to take the places of such members of said Committee as shall not be members of said new House of Commons: and the new members so chosen shall have their names added to the list of members of said Committee—the one having the smallest number of votes in the ballot for the election being placed at head of the list of new members, immediately below the list of former members; and the one having the greatest number of votes in said ballot, being placed at bottom of the list of new members; and those having intermediate numbers of votes, being placed

Of the committee, the President to continue in office during her Majesty's pleasure; of the other twelve, four to retire annually, on 1st January;

being the four whose names are at the head of the list of members; any member ceasing to be a member of the House of Commons, to cease to be a member of the Committee, and a new member to be chosen;

and in case of a dissolution of Parliament, the committee to act till a new Parliament shall have been convened.

intermediately in said list — all as heretofore provided.

The duty of the bank to consist in issuing paper-money, or bank-notes,

VI. That it shall be the duty of this bank to issue to all parties possessing the qualifications, and upon the conditions hereinafter mentioned, bank-notes, for the sums respectively of one pound, five pounds, twenty pounds, oue hundred pounds, and one thousand pounds, and expressed in the following terms, namely:—

National Arms.	NOTE *for*	*Portrait of Her Majesty.*
	[TEN] POUNDS STERLING,	
£10.	*Issued by authority of the Commissioners of the National Bank of the United Kingdom of Great Britain and Ireland.*	£10.

(*Signed*) A. B., *Cashier.*
„ C. D., *Accountant.*

LONDON, 1*st January* 1857.

to every party holding stock in the National Funds to extent of £ ; to an amount not exceeding per cent. of the stock so held;

VII. That notes, as aforesaid, shall be issued to every party being holder to extent of not less than [ten] thousand pounds, sterling, in the National Funds, to an amount not exceeding [ninety-five] per cent. of the value of the stock so held by him, as the same shall be indicated by the average price of the said stock ruling on the London Stock Exchange during the week immediately preceding that in which the advance shall be made; and who shall have had his name duly registered in the books of said National Bank, and shall have transferred said stock to the names of the Cashier and Accountant of said bank, to be held by them in trust, and in security for the due repayment of such advances as shall be made on the same, and of the interest on said advances, as herein after-mentioned: Provided always, that in case the value of the stock so held shall at any time fall so that the margin between its market price in the London Stock Exchange, on the average of the week immediately preceding, and the amount advanced upon it, including interest, shall be

provided he shall have transferred said stock to the bank in trust;

the Cashier and Accountant of bank being bound to sell off said stock, whenever the amount advanced upon it shall exceed per cent. of its market value.

less than [five] per cent., the Cashier and Accountant shall be bound forthwith to dispose of the same, at the best price that can be obtained for it, and to place the proceeds at the credit of the party for whose account it shall have been sold, accounting to him for the surplus, after payment of the advances made upon it, or claiming upon him for the deficiency, compared with said advances; as the case shall be.

Each party having so transferred his stock, to have an account opened in the bank ledger;

VIII. That each party who shall have had his name registered as aforesaid in the books of said National Bank, and who shall have transferred to the names of the Cashier and Accountant thereof the stock held by him in the National Funds, as aforesaid, shall forthwith have an account opened for him in the ledger of said National Bank, against which he shall be at liberty to draw such sum or sums of money as he shall see fit, not at any one time exceeding [ninety-five] per cent. of the value of said stock, as aforesaid, which money he shall be at liberty to repay, and also to redraw and repay as often as he shall see fit; and on the balance remaining at debit of his account, on the closing of the said bank each day, interest shall be charged at a rate corresponding with the rate of interest yielded by the said stock, at the average price born by it in the London Stock Exchange during a period of [ ] weeks immediately preceding the week in which said interest shall be chargeable, namely, if the average price of said stock shall have been such, during the said period of [ ] weeks, as to yield a return of more than two and nine-tenths per cent., and less than three per cent. per annum, then interest shall be charged on the foresaid balance at rate of three per cent. per annum; if the average price, as aforesaid, shall have been such as to yield a return of more than three per cent., and less than three and one-tenth per cent. per annum, then interest shall be charged on the foresaid balance at rate of three and one-tenth per cent. per annum; if the average price, as aforesaid, shall have been such as to yield a return of more than three and one-tenth per

against which he may draw, lodge, and redraw, as often as he may see fit, to an amount not exceeding per cent of the value of said stock;

interest being charged on the balances at his debit each day,

cent., and less than three and two-tenths per cent. per annum, then interest shall be charged on the foresaid balance at rate of three and two-tenths per cent. per annum, and so on; the rate of interest chargeable on the amount advanced, rising or falling by intervals of one-tenth per cent. per annum, and being always as great as the interest yielded, as aforesaid, on money invested at the said market price in the stock held against it; and the interest so arising shall be entered to debit of said account on the day on which the dividend shall become due on the stock held against it; on which day the account shall, in like manner, be credited with the dividend due on said stock.

and his account being credited with the dividends on said stock.

Reports of the amount of notes in circulation to be published in the *Gazettes*, weekly, monthly, and yearly.

IX. That the Cashier and Accountant of said bank shall, on some day in every week, such day to be fixed by the Commissioners of Stamps and Taxes, transmit to the said Commissioners an account of the bank's notes in circulation at the closing of the bank on each day during the week ending on the next preceding Saturday; and shall, on some one day in every calendar month, such day to be also fixed by said Commissioners, transmit to the said Commissioners an account of the average amount of the bank's notes in circulation during the calendar month ending on the last day of the calendar month immediately preceding; and shall, on some one day in every year, such day to be also fixed by said Commissioners, transmit to the said Commissioners an account of the average amount of the bank's notes in circulation during the year ending on thirty-first December next preceding; which several accounts shall, respectively, be published by the said Commissioners of Stamps and Taxes in the next succeeding *London Gazette*, *Edinburgh Gazette*, and *Dublin Gazette*, in which the same may be conveniently inserted.

The principal office of the bank to be in London, with branches in Edinburgh, Dublin, and elsewhere.

X. That the principal office of the said National Bank shall be established in the city of London, but that branches thereof shall also be established in the city of Edinburgh, in the city of Dublin, and in such other places throughout the United Kingdom as to her Majesty shall seem fit.

I have now, My Lord Duke, laid before you a detail of the currency system which I suggest for adoption by the British nation; and I flatter myself that these ten paragraphs will be found to embrace all, or very nearly all, that is required to secure a currency fully adapted to the purpose for which it is designed;—a currency which would fluctuate exactly as the transactions to be conducted by it should fluctuate;—a currency guarded alike against the possibility of redundancy, and against the possibility of deficiency;—and a currency which could not undergo depreciation, but which would form a perfect scale for indicating the respective degrees of estimation in which different articles are held, the prices of which would rise and fall with respect to each other, exactly in accordance with the state for the time being of the relations between supply and demand; that is, exactly as they would do under a system of pure barter.

It is possible, however, that there may be some in whose minds the idea of currency is so intermingled with that of gold, that they may be unable to form any conception of the one apart from the other; and who will announce their inability, "by any effort of their understanding, to form any other idea of a pound sterling, but a certain determinate weight of gold or silver." * But, should the influence of those labouring under that prejudice be so powerful as to prove a barrier to the adoption of the more perfect system above suggested, then a modification of it

* Sir Robert Peel.

may be easily made, which should still regard gold as to a certain extent the basis of the currency, with this difference, as compared with the present system, that in place of its forming the standard of value, it should fluctuate in price like any other commodity, a pound still representing a certain quantity of gold but the exact quantity depending upon the stock actually held in the country at the time.

For the attainment of this object, it would only be necessary that one of the foregoing sections of the proposed act should be altered, and that two should have certain additions made to them.

For Clause VI., *supra*, p. 336, it would be necessary to substitute the following :—

The bank to issue notes, payable in gold;

VI. That it shall be the duty of this bank to issue to all parties possessing the qualifications, and upon the conditions hereinafter mentioned, bank-notes for the sums respectively of one pound, five pounds, twenty pounds, one hundred pounds, and one thousand pounds, and expressed in the following terms, namely—

> *The National Bank of the United Kingdom of Great Britain and Ireland promise to pay to the bearer, on demand, at their Office in London,* [ ] *pounds sterling, in gold, at the prices mentioned on the back hereof.*
>
> *By order of the Commissioners.*
>
> (*Signed*) A. B., *Cashier.*
> C. D., *Accountant.*

LONDON, 1*st January*, 1857.

REVERSE OF NOTE.

At a price to be regulated by the stock in its treasury.

When the Stock of Gold in the Treasury of the Bank — Shall exceed	And shall not exceed	This note shall be payable in gold, at the price of			
—	100,000 oz.	£10	0	0	per oz.
100,000 oz.	200,000 „	9	0	0	„
200,000 „	400,000 „	8	0	0	„
400,000 „	600,000 „	7	0	0	„
600,000 „	900,000 „	6	0	0	„
900,000 „	1,200,000 „	5	10	0	„
1,200,000 „	1,500,000 „	5	0	0	„
1,500,000 „	1,750,000 „	4	10	0	„
1,750,000 „	2,000,000 „	4	5	0	„
2,000,000 „	2,250,000 „	4	2	6	„
2,250,000 „	2,500,000 „	4	0	0	„
2,500,000 „	3,500,000 „	3	17	9	„
3,500,000 „	4,000,000 „	3	17	6	„
4,000,000 „	4,250,000 „	3	17	0	„
4,250,000 „	4,500,000 „	3	16	6	„
4,500,000 „	4,750,000 „	3	16	0	„
4,750,000 „	5,000,000 „	3	15	6	„

And at a further reduction of sixpence per ounce for every additional quantity of 250,000 ounces of gold contained in the bank treasury.

To Clauses VII. and VIII., it would be necessary to make the following additions :—

The bank to issue notes in the purchase of gold.

VII. That notes, as aforesaid, shall be issued in payment for gold coin and bullion, which the bank shall be bound to purchase at a price one penny-halfpenny per ounce below the prices detailed in section sixth of this act, and shall further be issued on loan to every party [as formerly stated, *supra*, p. 336 ; and at end of the section to proceed as follows :]—Provided always, that the said bank shall, in every case, be entitled to require that such gold bullion as shall be offered to it for purchase shall be melted and assayed by persons approved of by the Cashier and Accountant thereof, at

the expense of the parties tendering such gold bullion; and further, that the said bank shall in no case be bound to purchase, or to pay its notes in, quantities of gold bullion less than sixty ounces each in weight.

The interest on advances to rise as the stock of gold diminishes.

VIII. [At end of section, *supra*, p. 338]—Provided always, that should the stock of gold bullion held by the said bank be at any time less than two millions, five hundred thousand ounces, the rate of interest payable on the balances of the accounts aforesaid, shall rise according to the following scale, namely—

If the stock of gold in the treasury of the bank shall, at the closing of the bank on any Saturday, be Less than	And more than	Interest shall, throughout the week immediately following, be charged on all balances at rate of
2,500,000 oz.	2,000,000 oz.	$3\frac{1}{2}$ per cent. per an.
2,000,000 „	1,750,000 „	4 „ „
1,750,000 „	1,500,000 „	$4\frac{1}{2}$ „ „
1,500,000 „	1,250,000 „	5 „ „
1,250,000 „	1,000,000 „	6 „ „
1,000,000 „	750,000 „	7 „ „
750,000 „	500,000 „	8 „ „
500,000 „	300,000 „	9 „ „
300,000 „		10 „ „

The alteration on Clause VI. would, I conceive, serve to meet the views of those to whom it may appear essential that a pound-note should represent a certain quantity of gold; and the addition to Clause VIII. would serve also to meet the views of those who consider that the presence of a certain quantity of that metal on British soil is essential to the commercial prosperity of our country. But, for sake of the credit of British intelligence in the second half of the nineteenth century, I do most earnestly trust that no such alteration or addition may be deemed necessary. With a currency constructed according to the original plan above suggested, *depreciation is*

an impossibility; and though, whatever currency system may be acted upon, times will occur when foreigners will prefer taking payment of debts in gold, to taking payment of them in our manufactures (whether from their markets being already supplied with them, or from their preferring to encourage native industry, it matters not,) I think it must be obvious to every one who will lend an open ear to the voice of history or of reason, that there is no immediate connexion between an export of gold and any peculiar state of the currency, and that the cause of gold being exported is simply this—that foreigners, for reasons which to them appear good and sufficient, prefer to be paid in gold to being paid in goods. Under both of the plans now proposed the price of gold would rise, like the price of any other commodity, when the demand increased and the stock diminished, so that the inducement now held out to foreigners, during a period of unfavourable exchange, to take goods in preference to gold, through the fall in the prices of the former artificially produced, would be in no way diminished under the new system, the difference being that in place of goods falling in price, gold would rise, but the result being the same—that goods would become cheap relatively to gold, and so hold out a premium on their exportation.

The working of the system will, I imagine, have been made sufficiently clear by the details given in the foregoing draft of the proposed bill.

Under it, the duties devolving on the mint would assume a new character, and would embrace the production of paper as well as of metallic money; and

looking forward to the early adoption of a decimal division of our money, I presume the circulation would then consist of tokens of the following denominations:—

One thousand pounds,	In paper.
One hundred pounds,	
Twenty pounds,	
Five pounds,	
One pound,	

Five-florin piece, 5-10ths of pound, in pure gold.
Florin, 1-10th of pound, in gold alloyed with silver.
Shilling, 5-100ths of pound, in pure silver.
Penny, 1-100th of pound, in silver alloyed with copper.
Farthing, 1-1000th of pound, in copper.

The use of a superior metal in the coinage would render the metallic money more portable. The penny would then be equal to 2d +4-10ths of our present ~~penny~~ money, and the farthing would represent a value 1-25th less than our present farthing; but these would be the only changes, it being very desirable that the pound should still continue the standard unit of our currency,—as a departure from it, even if it were to have substituted in its place a unit corresponding with one to be adopted by all Europe, would entail inconvenience greatly counterbalancing any advantage that could result from the change. The benefit that could be derived from the substitution of another unit for the present, even though its adoption might be universal, would be confined to the very limited number of those who are engaged in exchange operations; and even to them would be productive of a saving of trouble so little in excess of the saving of trouble which would result from the adoption of a decimal division of our money with the pound still retained as its basis, as to be

almost inappreciable: while the inconvenience that would result from the abandonment of the pound as our standard unit, would be one affecting every member of the community, and would prove, for fifty years to come, a source of inexpressible annoyance to the population of this country. The sovereigns now circulating might continue to circulate for a time; but it does not appear that any benefit would arise from issuing more, pound-notes forming a currency so incomparably more convenient.

But, to return from this digression—the money so created in the mint would be issued entirely through the medium of the National Bank, with the head office of which in London, accounts would, of course, be opened by all the bankers, as well as, probably, by many of the leading merchants of the metropolis. The duties of the officers of the bank would be of an extremely simple character,—being confined, as I would propose they should be, to supplying the wants only of parties dealing in large sums, so that the ledger of even the London office might not contain more than one or two hundred accounts, if so many. It would be desirable that it should open for business an hour or half-an-hour before the time at which the banking houses open to the public, to admit of their severally obtaining supplies of money to serve for the demands likely to be made upon them in course of the day. From that time till near the close of the business day, the duties of the cashiers or tellers would be very light, and would consist solely in supplying the wants of such merchants as might have accounts with the National Bank, and who might not find it necessary to draw so early in the morning

as the banking houses would do, and in giving additional supplies to such bankers as might in the morning have underrated the amount required for meeting demands upon them. I would propose that it should, also, be kept open for business for an hour or half an hour after the time at which the banking houses close to the public, to admit of their depositing their surplus money; and with the view of simplifying the work, I would propose that no payments should be made, or deposits be received, (except in the closing of accounts,) for fractional parts of one thousand pounds.

As regards the carrying out of the system over the country, it will be evident to your Grace that the greater the number of towns throughout the kingdom is, in which branches of the bank are established, the more favourable it will be for the private and joint-stock banks through which the banking business of the country will, no doubt, as hitherto, be conducted; as the fact of any such bank being at a distance from the government office from which they drew their supplies of money, would necessitate their having always in store an amount of notes sufficient to supply all contingent demands, which, as every note so held by them would expose them to a certain expense for interest, it would be very desirable to avoid; it being a most important feature in the proposed system, that no one should have to pay even one day's interest for money that was not absolutely required for conducting the business of the country. The fact of any such bank being at a distance from a branch of the government bank, would place it at a disadvantage with regard

to other banks; and would, besides, incapacitate it for giving that interest on deposits, which under more perfect arrangements they would be able to allow. It would, therefore, be exceedingly desirable that a branch of the National Bank should be established, not only in Edinburgh and in Dublin, but in every manufacturing and commercial town, of any considerable trade, in the three kingdoms. The expense attendant upon this need not be otherwise than very trifling; as the duties connected with the office could easily be discharged by the distributor of stamps in each town, and the addition thereby made to his labour would be so insignificant, that a small increase to his salary would afford him ample compensation. Except in some of the great commercial towns, where accounts might, perhaps, be opened by a few of the leading merchants, the business of the National Bank would be confined entirely to the supplying money to the private and joint-stock banks, so that only a small number of accounts would appear in the ledger of the local branch, and the duties of the agent would be limited to handing over every morning to, and receiving every afternoon from, the cashier or clerk of each of the banks in the town, so many thousand pounds of bank-notes.

I have proposed that the rate of interest to be charged on all money advanced should be a fraction above the rate of interest yielded by money invested in government stock. In a country like Great Britain, or France, or the United States, where the most perfect confidence is reposed in the good faith of the respective governments, as well as in their ability to fulfil all their pecuniary obligations, it may

be held that the rate of interest so yielded represents the real value of the use of money (capital), apart from considerations of risk. A decline in the rate of profit to be derived from the use of money will be immediately indicated by a rise in the price of the national funds; while a rise in the rate of profit will in like manner be followed by a fall in their price. And I think the arrangement proposed, by which it is provided that the interest chargeable on advances should fluctuate as the prices of the funds fluctuate, is fair and equitable; while the slight excess charged above the interest yielded by the funds, is too small to be felt as a burden by any one; and, at same time, it should serve to yield an annual amount sufficient to cover the whole, or pretty nearly the whole, expense of the proposed National Bank. The present circulation of the kingdom amounts, it is supposed, to about sixty millions. The probability is, that from improvements in the modes of conducting business, every year will see it diminish; but we may assume it as continuing at fifty millions, that being the amount of National Bank notes, which we shall accordingly suppose will form the circulation of the country. The rate of interest to be charged will, on an average, be one-twentieth per cent. above the rate yielded by the securities against which money is advanced; and one-twentieth per cent. per annum on fifty millions will produce a yearly revenue of twenty-five thousand pounds, which would go far to defray the extra expense the country might be subjected to in carrying out the proposed system; while the balance of interest received on account of notes in circulation,

amounting, on an average, let us suppose, to three and a quarter per cent., would yield an annual revenue of one million six hundred and twenty-five thousand pounds, and to that extent would serve to diminish the burdens of the nation.

Under all the currency systems which the world has hitherto seen, the rate of interest has been regulated, not by the relation existing between the supply of loanable capital and the demand for it, but has been regulated, or at least to a very great extent affected, by the temporary over-supply or short-supply of the mere circulating medium; but under the system now proposed, rate of interest would cease to be so affected, and would depend entirely on the natural regulator, namely, the state of the relation existing, for the time being, between the supply of, and the demand for, loans of capital, viewed in the abstract.

But the power of issuing paper money is one that has, in many instances, been abused by governments, so that a prejudice exists in the minds of some against the very name of a government or national bank; while with others the objection is equally strong against the privilege of issuing paper money being confined to any one establishment, whether connected with government, or independent of it; and it may, therefore, be well to consider in how far the objections that have been so urged apply to an institution such as the one I have suggested.

In an article on the "Renewal of the Bank Charter," contained in the *Westminster Review*, vol. xvii., being the number for July, 1832, some objections are stated to the principle of a national bank; and

in Mr Gilbart's "Practical Treatise on Banking," I find various objections enumerated against entrusting the supply of paper money to any one establishment. From the very complete character of the latter work, I doubt not the catalogue in it embraces every objection, possessing anything like plausibility, which has been made use of in connexion with the point at issue; and I flatter myself it will be found that not one of the whole number will apply with any force to a national bank founded on the principles detailed in the foregoing pages.

It is objected to a national bank—*First,* "That it is idle to expect from its managers the same watchful attention that is paid by the directors of the Bank of England." To which I answer, that the duties of the new bank would be of such a routine character, and so entirely mechanical, that nothing but wilful neglect could cause any deviation from the course prescribed. *Second,* "A national bank could not carry on the business of discounting like the Bank of England." Undoubtedly not! And it would be a very bad thing for Great Britain were its government to be reduced to taking up the business of bill-discounting. *Third,* "Government would be converted into a species of money scrivener, and be directly implicated in the affairs of individuals." Yes, if it were to discount bills; but not so by merely issuing notes to holders of the national funds, and on security of their stock in them. *Fourth,* "A national bank would be at all times subservient to the views of government." If by this be meant that any British minister in the nineteenth century would wish the officers of a national bank to furnish paper

money for the service of government, in a way not authorised by the law, the remark is unworthy of comment. The management of the mint has always been as much under the control of the government of the day as the new bank is proposed to be, and a great deal more so; but we have not heard, at least for the last hundred and fifty years, that the ministry have ever sought to assist the carrying on of government by debasing the coinage; and there is equally little ground for apprehending that, in the case of a national bank, managed by officers responsible to, and removeable only by, a committee of the House of Commons, any ministry likely to exist in Great Britain, during the next hundred years, would seek to induce these officers to violate their duty by issuing, for the use of government, what would virtually be forged notes.

It has been objected to a single bank of issue.—*First,* "If we had only one bank of issue we should have sometimes too much money, and sometimes too little for the wants of trade."—This frequently happens under the present system; but under the plan proposed, such could never be the case, as the supply of money would, at all times, be exactly proportioned to the necessity existing for it.

Second, "One bank of issue would reduce the means of the country bankers to afford assistance to their customers, and hence cause great distress, especially in the agricultural districts." — I will shew, hereafter, that no such result would follow to the country banks from the institution of a bank such as I propose; and that the loss sustained by these banks from the withdrawal of the privilege of issuing

notes, would be very amply compensated by other advantages which would flow to them from it.

Third, "Bankers would be compelled to increase their charges."—As explained in the preceding paragraph, this need not take place, as the adoption of the plan above recommended would tend rather to increase than to diminish the profits of the private and joint-stock banks.

Fourth, "One bank of issue would cause some of the smaller banking establishments to be discontinued."—As stated in the two last paragraphs, the new bank would not reduce the profits of private banks; but if some of the smaller banks were to be discontinued, and their places to be occupied by larger and stronger banks, it would be no loss to the community, any more than the driving the carriers and coach proprietors off a road by the side of which a railway may have been constructed. Individuals may suffer by it, but not the community at large.

Fifth, "One bank of issue would lead to the substitution of bills of exchange, or some other form of credit currency."—By all means! provided, of course, that the law is not violated, and that the new form is more convenient than the old.

Sixth, "With one bank of issue the reactions of the foreign exchanges would produce great and universal distress, and yet not accomplish that constant conformity between the London and country circulation which is sought to be attained."—Under the proposed system, the only effects of an unfavourable exchange would be to raise the price of gold, and so hold out extra inducement to parties to send abroad goods in place of the precious metals; though, if

they should prefer to send the latter, the event would not long continue to be viewed in the light of a national calamity; and the only parties who would suffer any distress in consequence of the reaction, would be those who were obliged to give an advanced price for the gold they might find it desirable to purchase. The London and the country circulation would always continue in exact conformity with each other.

Seventh, "The establishment of one bank of issue would embarrass the fiscal operations of the government."—As will hereafter be explained, no such consequence would follow the establishment of a bank such as I propose, and the ability of the Bank of England to make temporary advances to the government would be in no way impaired.

Eighth, "The principle of one bank of issue cannot be applied to the various currencies of the United Kingdom."—As there would be only one currency for the United Kingdom, this is not applicable to the new system.

From the foregoing enumeration, it will be observed that the objections to a national bank, and also those to a single bank of issue, are for the most part of a very unsubstantial character, and that not one of those quoted can, for one moment, be regarded as bearing with any force against a national bank established on the principles I have laid down: so I have now, in addition, to explain in what ways the adoption of the proposed system would be likely to affect the different sections of the community.

As regards the Bank of England, the currency

bill of 1844 (7 & 8 Vict., c. 32), provided that, in consideration of exemption from stamp-duty on its notes, and other privileges enjoyed by it, the bank should deduct and pay to government £180,000 per annum of the allowance made to it for managing the public debt of the country; and also, that on the expiry of its charter, without renewal, the bank should be entitled to demand payment of its whole advances to government. The privilege of issuing bank-notes being taken from the Bank of England, the deduction in question could no longer be demanded, and the bank would be entitled to the full amount of remuneration for management of the national debt, stipulated by act, 48 Geo. III., c. 4. While, as regards the debt due to it by government, the directors might probably desire to let the amount be placed at the credit of their account with the national bank, to form the basis on which they should be enabled to draw such amount of notes as they should require for carrying on their discount business. Or, if they desired to hold only a smaller amount of government stock, purchasers would be very easily obtained for the balance.

The issue department of the Bank of England would, of course, cease to exist, but the discount department would continue its operations as before, with only this difference—that, in place of having notes handed to it, without reference to their ability to find employment for them, they would obtain from the National Bank exactly that amount which might be necessary for carrying on their business,—all notes on hand at the close of each day being returned to it. From the extent of its means, it would still, no doubt,

be the bank of the government. To it the government would still apply for such temporary advances as they might require; it would still pay the dividends on the national debt, and to its keeping would be entrusted the sums of money collected by the officers of the revenue. On all advances to government it would be entitled to charge such rate of interest as might be stipulated; and of course it would be only just that, in return, it should allow interest to government when the balance on account current should be in favour of the latter,—the rate to be so allowed being, in like manner, subject of arrangement between the Chancellor of the Exchequer and the bank directors.

The withdrawal from the Bank of England of the privilege of issuing bank-notes would, of course, affect its profits, but probably not to the extent to which it might at first sight appear likely to do so. At present, it is at liberty to hold fourteen millions of government stock, and against that to issue fourteen millions of bank-notes,—all its other issues being represented by gold coin, or gold and silver bullion deposited in its vaults. As regards the latter class of issues, they are unattended by any profit whatever, but the former, it is evident, occupy a different position; and *if it can get them lent out,* it derives interest from the parties to whom they are lent, in addition to the interest drawn from the government stock, against which they are issued. But for some time back, a very large proportion of the whole notes issued has been issued against gold; and looking at the prospect of still more extensive importations of that metal, it may reasonably be presumed that, in

time coming, a proportion of the notes, even larger than hitherto, will be issued against it; so there seems reason for believing that, under a continuance of the present system, the amount that the bank might be able to keep out, of *interest-yielding notes,* would come far short of the amount of fourteen millions, which it is permitted to issue; while, if allowance be made for the reserve of notes that must always be kept unemployed, the bank's profits from this source are likely to undergo a gradual diminution, so great, as to render the loss of the privilege of issuing bank-notes a loss involving only a comparatively small amount.

Under the system proposed, the notes used by the Bank of England would all be obtained on loan from the National Bank, interest being paid on them as would be done by any other banker or merchant, so that the profit to be made by the employment of them would depend entirely on the difference between the rate at which they borrowed and that at which they lent, and on the skill they displayed in the selection of securities. They would, also, no doubt, be required to allow a certain interest on all deposits, at a rate, of course, lower than that which they charged on loans; but in place of, as at present, keeping a certain proportion of their deposits constantly unemployed, and thus unproductive, no such precaution would be necessary, as their whole deposits would be at all times available; and I am inclined to believe that the saving thus made would compensate the bank, if not wholly, at least to a very great extent, for the loss of the profit at present derived from her privilege of issuing notes, as well as

from the employment of her deposits; so that, in the end, its profits might come to be very little less than they would be under a continunce of the present system.

As regards the Country Banks in England, the loss of the privilege of issuing bank-notes would, in like manner, entail a certain diminution of their profits, but only to a very small extent. There are, in England and Wales, 251 banks of issue (irrespectively of branches), and as the amount of their conjoined issues is only about eight millions, the interest derived from which, after deduction of stamps and other charges, cannot exceed £240,000, the average profit to each cannot be more than about £1000 per annum,—which, I feel satisfied, is much less than the saving that would accrue to them from their being exempted from the necessity they are now under, in the first place, of keeping a considerable reserve of Bank of England notes to provide for such of their notes as may be presented for payment, and, in the second place, of keeping a large proportion of their deposits in the form of Bank of England notes, or in securities of the most convertible character, the former being totally unproductive, and the latter nearly so, to provide for the sudden demands that their depositors may make upon them. It is true, that where banks are in the habit of re-discounting, then a certain portion of their reserve may take the form of mercantile bills; but the saving arising from such a practice is far more than counterbalanced by the danger,—the custom being one to which the downfall of most of

the banks that have from time to time given way, is distinctly traceable.

As regards the BANKS IN SCOTLAND AND IRELAND, a similar diminution of profit would also result to them from the loss of the privilege of issuing bank-notes. By act 8 & 9 Vict., c. 37, secs. 3 & 4, it was enacted that the Bank of Ireland should, during the continuance of the charter then granted, manage the public debt of Ireland, without expense to the nation; and that, on the termination of the said charter, the bank should be entitled to repayment of the amount of £2,630,769, 4s. 8d., advanced by it to government. This privilege of issuing notes being withdrawn from the bank, its obligation to manage the public debt, without remuneration for so doing, will, of course, come to an end; and as to the debt due to it by the government, its amount can either be placed at credit of the Bank of Ireland, in the books of the National Bank, as the basis on which it may acquire bank-notes for carrying on its business, or, if its directors should prefer it, it can be paid off in whole or in part. Each bank in Scotland and Ireland will, of course, become possessors of government stock to amount sufficient, at least, to give them the privilege of obtaining notes to an extent equal to that of their present circulation; and for the use of these notes they will have to pay interest at rate of three and a-third per cent., or thereby, in place of getting them, as at present, for the mere expense of paper and stamps. This will indicate the extent of their loss through the adoption of the proposed system. But there is

gain to balance this. Hitherto every bank has been compelled to keep constantly on hand a quantity of gold, equal, on an average, to about one-third of the amount of their notes in circulation, and this, added to the expense of providing stamps, paper, printing, &c., for them, may fairly be assumed as carrying off one-half of the whole profit derived from their circulation.

Then as to their deposits, on which all the Scotch banks, and, I believe, many of the Irish banks, allow interest, the profits to be derived from the use of these deposits must be greatly limited by the necessity which prudence imposes of keeping a certain proportion of them constantly unemployed. Various circumstances will, no doubt, act in deciding what proportion this reserve shall bear to the whole amount —such as, the opportunities of investment offering, the prospects of the money market, and so on; but the professed rule is, that one-third of the whole deposits should always be kept in reserve, to meet such demands as may suddenly be made upon them; so that, assuming the deposits held by any given bank to be three millions, on which they allow interest at rate of two per cent., or, in all, £60,000 per annum; while they lend out two millions, at rate of four per cent., or £80,000 per annum,—the profits from the deposits would appear to be only £20,000 per annum; to which, however, may have to be added the interest that may be derived from such part of the reserve as may have been invested in interest-yielding government securities, or from which may have to be deducted the loss made by the resale of these government securities, when the aspect

of business becomes such as to render it desirable that the whole means of the bank should assume a form in which they should be immediately available.

Under the system now proposed, the position occupied by the banks with regard to the use of their deposits, would be a much more favourable one; as their whole reserve might be constantly producing interest, and at same time be available for payment of their depositors at a moment's notice, and without exposing the bank to loss or expense of any kind,—in place of being, as at present, either totally unproductive, or, if productive, made so only by running the risk of having deposits demanded payment of without the previous warning necessary to admit of the securities being realised, and thus exposing the bank to the danger of being unable to meet its liabilities; and subject, also, to the additional risk of being compelled to realise at a loss on the price at which the investments may have been made,—so that, whereas, in the one case, the profit of the banks is limited to what they can make from the employment of two-thirds of their deposits, in the other, every pound deposited with them, even for a day, would be a source of gain; and the consequence would be, that were the interest allowed on deposits to be no higher than that hitherto customary, the extra gain made by the banks upon them would very far exceed the loss to which they may have been exposed through being deprived of the privilege of issuing bank-notes. It is probable, however, that competition among banks would induce them to fix a higher rate of interest than it has hitherto been common to allow, as the difference between what they allow and

what they would have to pay to the National Bank for the money, would be all clear gain.

In looking over the system proposed in this letter, it will not have failed to occur to your Grace, that it bears a certain resemblance to the system of banking which has been established for the last seventeen years in the State of New York; and as that system has been much commended, it may be well, here, to make a passing allusion to it. The leading features of the system in question are these:—That bank-notes, to be legally issued within the State, must be obtained by the banks of issue from the Comptrollers of the State, by whom they must be countersigned, numbered, and registered; no bank can obtain them till such time as they have transferred to the Comptroller a portion of the public stock of that State, equal, at its current market value, to the amount of notes to be delivered by him to the bank, or public stock for one-half of the notes, and bonds or mortgages upon real estate for the other half; the bank must, through their authorised officer, sign the notes so delivered to them, making them payable on demand at their place of business; and after this, they may be lawfully circulated as money. Further, in case of the issuer of such note refusing to redeem it, on lawful demand, at his place of business, between the hours of ten and three o'clock, by paying it in the money of the United States, the holder may cause the same to be protested for non-payment by a notary public; the Comptroller, on receiving notice of the protest, is bound to call upon the issuer, by written intimation, to pay the note; and, in event of

his failing to do so within ten days thereafter, the Comptroller (unless he be satisfied that there is a good and legal defence against the payment of such note or notes) has to give notice, in the State paper, that all the circulating notes issued by the bank in question will be redeemed out of the trust securities held by him for that purpose; and he is bound, accordingly, to divide the funds realised from the sale of the said securities, rateably among all the notes, whether protested or not, put in circulation by the said bank.

Now, in so far as concerns the basis on which the notes are issued, each of the systems provides almost equally well for the security of the holders of the notes:—the American system not so well, however, as that I have recommended; in so far as it seems to make no provision for a fall in the value of the securities held against the notes. But that they do both provide, better or worse, for the safety of the note-holders, seems to be the only point in which they resemble each other; and it certainly appears to me to be the very point, in the whole circle of banking affairs, which least calls for legislative interference,—all that is necessary for the most perfect attainment of that end being, as is shewn by the history of banking in Scotland, to "let it alone," and leave the people to provide banks for themselves. England and Ireland illustrate the evils of government interference, and Scotland the advantages of its non-interference, in the formation of banking institutions; so that the people of America might have attained all the security they get through the somewhat complicated machinery above described, by merely adopting

the plan, which has long existed in Scotland, and now exists also in England and Ireland, of having banking companies with numerous proprietaries and extensive capitals. In all respects except the one abovementioned, the two systems are essentially different; and, indeed, it does not appear that the American one is in any single point of view superior to that existing in the United Kingdom, unless it be this, that the banks are not limited by law as to the amount of notes they should issue. But, in practice, this freedom from limitation cannot be of much importance; as, being bound to pay their notes in gold, it follows, of course, that there, as here, no sooner does the balance of trade turn against the country, and gold begin to be exported, than alarm prevails, and every bank contracts its circulation as much as it can do consistently with its own safety. There appears, accordingly, to be in this American system as complete an absence of elasticity in those circumstances in which expansiveness of the currency is most required, as in the system presently prevailing among ourselves; while the general tendency of each must be about equally great to promote speculation, by making money abundant when gold is flowing in, and to create panic, by making money scarce when gold is flowing out.

The plan described in the foregoing letter seems to differ from all former currency systems (that I have heard of) in these respects:—

That whereas, in all former systems, money and capital were confounded together; in this, the line of demarcation between the two is clearly marked—

money being no more regarded as capital, but simply as a contrivance to facilitate the interchange of commodities; inherent value being no more necessary to money than to railway tickets; and money bearing the same relation to the mercantile transactions of a nation, that tickets bear to the passenger traffic of a railway company:—

That whereas, in all former systems, the abundance or the scarcity of money were viewed as the evidences, respectively, of a prosperous or adverse state of commercial affairs; in this they appear only as evidences of human mismanagement:—

That whereas, in all former systems, the extent of the supplies of money was regulated either—1*st*, according to the necessities for capital of those who issued—as has always been the case with paper money issued by governments, to whom the time for curtailing their issues never came, so long as they wanted the means of provisioning their armies, and found that further issues supplied the deficiency: or 2*d*, according to the necessities for capital of those who borrowed—as was the case with the Bank of England during the continuance of the restriction act, when the bank directors propounded it as an axiom, that notes could never be issued in excess, so long as parties could be got to pay interest for the loan of them, and to give satisfactory personal security for their repayment: or 3*d*, according to the increase or diminution in the stock on hand of a certain commodity called gold—as is the case in Great Britain, in France, in the United States, and in all countries where a specie currency prevails, or a

currency expanding or contracting as a specie currency would do:—

In this the extent of supplies is regulated in exact accordance with the extent of necessity existing for it on the part of those who possess the capital or commodities, to facilitate the interchange of which is the sole function of money, and *due provision is made for the immediate absorption of whatever money may be in the hands of the public beyond that necessity.*

Under such a system DEPRECIATION would be an IMPOSSIBILITY.

I have now, My Lord Duke, endeavoured to lay before you a simple detail of the plan which I have to suggest to her Majesty's Government, and to the British people, for the future regulation of the currency of the United Kingdom;—a plan which, I think, I am warranted in believing would provide a monetary system, secured equally against the evils of redundancy, and against the evils of deficiency; and a plan founded on the plain and obvious principles of common sense.

I have also endeavoured to explain in what ways the adoption of the proposed system would be likely to affect the Bank of England, and the other banking institutions of the three kingdoms; and to shew that, as regards the Bank of England, the injury it would suffer from its adoption would be very trifling; and that as regards the other banking institutions of the country, the advantages would greatly preponderate over the disadvantages.

I have only further to explain, how it would be likely to affect the general community. And on this subject I will merely remark, that I believe it would prove the source of incalculable good, without one grain of counterbalancing evil. It would maintain a uniform and unvarying relation between the supply of money and the amount of exchanges to be effected by means of it;—it would ward off all those evils to which we have been subjected through variation in the amount of circulating medium;—it would prevent all that undue speculation which has heretofore resulted from the creation of money, irrespectively of the necessity existing for it as the instrument of exchange, as well as that which has resulted from the ruinous depression of prices, consequent on every panic in the money market;—it would confer a safety on the transactions of commerce hitherto unknown;—and in attaining these most important ends, it would lead to a gradual, but sure abandonment of that system, which the hazardous character conferred upon commerce by our wretched currency laws has rendered general amongst us, of carrying on nine-tenths of our trade on borrowed capital—a system which has gone far to convert business into a lottery, and to place the transactions of commerce on a par with those of the gaming-table;—and it would, finally lead to the adoption of a system, under which, through the formation of numerous joint-stock companies, or co-operative associations, the whole trade of the country will be conducted on the capital of those by and for whom it is carried on, a change which, sooner or later, will come, and which will

bring with it consequences of unrivalled importance, inducing, as it will, a state of society immeasurably superior to that now existing, as regards progress in national wealth; and still more remarkably superior to it, in its beneficial influence on the moral and intellectual character and general social welfare of the British people.

I have the honour to subscribe myself,

My Lord Duke,

Your Grace's most obedient,

Humble servant,

A BRITISH MERCHANT.

THE END.

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